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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 20-F**

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☒ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended \_\_\_\_\_

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

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**TRANSATLANTIC PETROLEUM CORP.**

(Exact name of registrant as specified in its charter)

**Alberta, Canada**

(Jurisdiction of incorporation or organization)

**Suite 1840, 444 – 5<sup>th</sup> Ave., SW, Calgary, Alberta T2P 2T8**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

**Title of Class:**

**Common Stock Without Par Value**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report – 42,556,939 as of December 31, 2006.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☐ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐      Accelerated Filer ☐      Non-accelerated Filer ☒

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☒ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☐ No

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**PART I.**

**Item 1. Identity of Directors, Senior Management and Advisers**

**A. Directors and Senior Management**

<u>Name</u>	<u>Business Address</u>	<u>Functions</u>
Michael D. Winn	Suite 1840, 444 – 5th Avenue., S.W. Calgary, Alberta T2P 2T8	Director
Brian B. Bayley	Suite 1840, 444 – 5th Avenue, S.W. Calgary, Alberta T2P 2T8	Director
Alan C. Moon	Suite 1840, 444 – 5th Avenue, S.W. Calgary, Alberta T2P 2T8	Director
Scott C. Larsen	5910 N. Central Expressway, Suite 1755 Dallas, Texas 75206	President, Chief Executive Officer and Director
Hilda Kouvelis	5910 N. Central Expressway, Suite 1755 Dallas, Texas 75206	Vice President and Chief Financial Officer

**B. Advisers**

<u>Name</u>	<u>Business Address</u>	<u>Position</u>
Macleod Dixon LLP	3700 Canterra Tower 400 3rd Avenue, S.W. Calgary, Alberta T2P 4H2	Canadian legal counsel
Haynes and Boone LLP	901 Main Street Suite 3100 Dallas, Texas 75202	U.S. legal counsel

**C. Auditors**

<u>Name</u>	<u>Business Address</u>	<u>Professional Body Membership</u>
KPMG LLP	Suite 2700, Bow Valley Square II 205 – 5th Avenue, S.W. Calgary, Alberta T2P 4B9	Institute of Chartered Accountants of Alberta and the Canadian Institute of Chartered Accountants

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

The selected consolidated financial data presented in the table below for the five fiscal years ended December 31, 2006 is derived from our consolidated financial statements and is denominated in U.S. dollars. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. This data includes our accounts and our wholly-owned subsidiaries' accounts. The following selected financial data is qualified by reference to, and should be read in conjunction with, our consolidated financial statements and related notes. We follow the full cost method of accounting for oil and gas operations.

The selected financial data for the years ended December 31, 2006, 2005 and 2004 was derived from our financial statements, which have been audited by KPMG LLP, Chartered Accountants, as indicated in their

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audit report which is included elsewhere in this registration statement. The selected financial data for the six months ended June 30, 2007 and 2006 was derived from our interim financial statements, which are unaudited.

Preparing U.S. GAAP selected financial data for the years ended December 31, 2003 and 2002 would require significant time and expenditures by us. In addition, due to the length of time that has elapsed, we do not believe such financial information is material to investors. As a result, selected financial data under U.S. GAAP for the years ended December 31, 2003 and 2002 are not included in this registration statement.

We have not declared any dividends since incorporation and do not anticipate that we will do so in the foreseeable future. Our present policy is to retain future earnings for use in our operations and the expansion of our business.

**Selected Financial Data Presented According to Canadian GAAP**  
(In thousands of U.S. dollars, except per share and share data)

	Six Months Ended June 30,		Year Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
Revenue	\$ 342	\$ 1,001	\$ 1,613	\$ 1,409	\$ 5,108	\$ 8,494	\$36,531
Net income (loss)	(3,095)	(2,559)	(9,413)	(3,773)	(5,193)	(584)	5,957
Net income (loss) per share basic and diluted	(0.07)	(0.07)	(0.25)	(0.11)	(0.17)	(0.02)	0.25
Cash dividends per share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Weighted average shares (000's)	42,830	38,182	38,182	33,023	30,908	23,831	23,803
Ending shares outstanding (000's)	43,131	37,937	42,557	37,659	31,852	23,831	23,831
Total assets	\$14,746	\$16,306	\$15,392	\$18,927	\$16,048	\$12,391	\$14,504
Long term liabilities	2,037	584	1,939	556	155	132	—
Shareholders' equity	8,152	13,783	10,502	15,936	14,713	11,672	12,099
Capital expenditures	4,123	1,870	4,737	4,839	1,706	1,409	462

**Selected Financial Data Presented According to U.S. GAAP**  
(In thousands of U.S. dollars, except per share and share data)

	Six Months Ended June 30,		Year Ended December 31,		
	2007	2006	2006	2005	2004
Revenue	\$ 342	\$ 1,001	\$ 1,613	\$ 1,409	\$ 5,108
Comprehensive net income (loss)	(5,864)	(2,433)	(10,836)	(3,575)	(5,567)
Net income (loss) per share basic and diluted	(0.14)	(0.07)	(0.28)	(0.11)	(0.17)
Cash dividends per share	\$ —	\$ —	\$ —	\$ —	\$ —
Weighted average shares (000's)	42,830	38,182	38,182	33,023	30,908
Ending shares outstanding (000's)	43,131	37,937	42,557	37,659	31,852
Total assets	\$10,495	\$16,116	\$ 13,910	\$18,868	\$15,791
Long term liabilities	2,037	584	1,939	556	155
Shareholders' equity	3,901	13,593	9,020	15,877	14,456
Capital expenditures	4,123	1,870	4,737	4,839	1,706

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The following table sets forth our capitalization and indebtedness as at September 15, 2007 and is qualified by reference to, and should be read in conjunction with, our consolidated financial statements and related notes.

<b>Capitalization and Indebtedness</b> <b>(In thousands of U.S. dollars)</b> <b>(unaudited)</b>		<b>September 15, 2007</b>
Indebtedness		
Accounts payable and accrued liabilities	\$	795
Short-term secured loan		4,000
Settlement provision		240
Asset retirement obligations		2,072
Total indebtedness	\$	7,107
Shareholders' equity		
Share capital	\$	23,872
Warrants		1,877
Contributed surplus		4,667
Deficit		(23,558)
Net shareholders' equity	\$	6,858

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable

**D. Risk Factors**

This section describes some of the risks and uncertainties faced by us. The factors below should be considered in connection with any forward looking statements in this registration statement. The risk factors described below are considered to be the significant or material ones, but they are not the only risks faced by us.

**We do not have sufficient capital to fund our international and U.S. development activities.**

We do not have sufficient funds to continue operations beyond October 2007. We entered into a credit agreement with Quest Capital Corp. for a \$4.0 million standby bridge loan that we have fully drawn down and which is due November 30, 2007 (see Item 5.B. – “Liquidity and Capital Resources”). We require significant immediate funding to continue to develop our properties. We intend to seek partners for our various projects, and we may sell one or more properties, or a portion thereof, to enable us to meet our capital commitments. We may be unable to obtain additional financing or sell all or portions of our properties in the time required on terms acceptable to us or to secure partners for our projects. If we are unable to raise sufficient funds to continue our operations, our business will likely be materially and adversely impacted. The consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainty.

**We will have substantial capital requirements that, if not met, may have a material adverse effect on our operations.**

Our future growth depends on our ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of debt or equity financing will be subject to a number of variables, such as:

- the success of our prospects in the U.S., Romania, Morocco, Turkey and the U.K. North Sea;
- success in locating and producing new reserves; and
- prices of natural gas and oil.

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Additional financing sources will be required in the future to fund developmental and exploratory drilling. Issuing equity securities to raise additional capital could cause substantial dilution to our existing stockholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- our being more vulnerable to competitive pressures and economic downturns; and
- restrictions on our operations.

We might not be able to obtain necessary financing on acceptable terms, or at all. If sufficient capital resources are not available, we might be forced to curtail developmental and exploratory drilling and other activities or be forced to sell some assets on an untimely or unfavorable basis, which would have a material adverse effect on our business, financial condition and results of operations.

**We might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause us to incur losses.**

Our review and evaluation of prospects and future acquisitions might not necessarily reveal all existing or potential problems. For example, inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, may not be readily identified even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and we often assume environmental and other risks and liabilities in connection with the acquired properties.

**A substantial or extended decline in natural gas and oil prices may adversely affect our ability to meet our capital expenditure obligations and financial commitments.**

Our revenues, operating results and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, natural gas and oil. Lower natural gas and oil prices may also reduce the amount of natural gas and oil that we can produce economically. Historically, natural gas and oil prices and markets have been volatile and they are likely to continue to be volatile in the future. A decrease in natural gas or oil prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. If natural gas or oil prices decline significantly for extended periods of time in the future, we might not be able to generate sufficient cash flow from operations to meet our obligations and make planned capital expenditures. Natural gas and oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, natural gas and oil, market uncertainty and a variety of additional factors that are beyond our control. Among the factors that could cause fluctuations are:

- change in local and global supply and demand for natural gas and oil;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, and other natural gas and oil producing nations;
- market expectations about future prices;
- the level of global natural gas and oil exploration, production activity and inventories;
- political conditions, including embargoes, in or affecting other oil producing activity; and
- the price and availability of alternative fuels.

Lower natural gas and oil prices may not only decrease our revenues on a per unit basis, but also may reduce the amount of natural gas and oil that we can produce economically. A substantial or extended decline in oil or natural gas prices may materially adversely affect our business, financial condition and results of operations.

**To the extent that we establish natural gas and oil reserves, we will be required to replace, maintain or expand our natural gas and oil reserves in order to prevent our reserves and production from declining, which would adversely affect cash flows and income.**

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If we establish reserves and are not successful in our subsequent exploration and development activities or in subsequently acquiring properties containing proved

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reserves, our proved reserves will decline as reserves are produced. Our future natural gas and oil production is highly dependent upon our ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital, our future exploration and development activities may not result in additional proved reserves, and we might not be able to drill productive wells at acceptable costs.

### **Our producing properties are highly concentrated.**

Our production is presently concentrated in two properties in the United States. We will remain vulnerable to the disproportionate impact of delays or interruptions of production until we develop a more diversified production base.

### **Our retained net profits interest on Oil Mining License 109 may not yield any revenue to us.**

In June 2005, we sold our interest in Oil Mining License 109, a 215,000 acre concession located offshore Nigeria (“OML 109”), and retained a net profits interest of up to \$16 million based on future exploration success. Absent a new discovery on OML 109 by the new owner, the retained net profits interest will not yield any revenue to us.

### **We might incur additional debt in order to fund our operations and our exploration and development activities, which would continue to reduce our financial flexibility.**

We currently have a \$4.0 million bridge loan with Quest Capital Corp. We must repay this loan by November 30, 2007. Our ability to meet our debt obligations and reduce our level of indebtedness depends on our future financial performance. General economic conditions, oil and gas prices and financial, business and other factors affect our operations and future financial performance and our ability to obtain additional financing. Many of these factors are beyond our control. In addition, our ability to generate sufficient cash flow to pay the interest on our debt or to obtain future working capital, borrowings or equity financing to pay or refinance such debt will depend on factors such as financial market conditions, the value of our assets and our financial performance at the time we need capital. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we might be required to sell significant assets. Any failure to refinance or renew our indebtedness or any sale of significant assets could have a material adverse effect on our business, financial condition and results of operations.

### **Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect our cost of operations or our ability to operate according to our business plans.**

If drilling activities increase in the countries in which we operate generally, shortages of drilling and completion rigs, field equipment and qualified personnel could develop. From time to time, shortages have sharply increased our operating costs in various areas around the world and could do so again. The demand for, and wage rates of, qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail our exploration and development operations, which may materially adversely affect our business, financial condition and results of operations.

### **Resource estimates depend on many assumptions that may turn out to be inconclusive, subject to varying interpretations or inaccurate.**

Resource estimates are based upon various assumptions, including assumptions relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, ownership and title, taxes and the availability of funds. The process of estimating natural gas and oil resources is complex. It requires interpretations of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise. Further, potential for future resource revisions, either upward or downward, is significantly greater than normal because all of our resource potential in Romania, Morocco, Turkey and the U.K. North Sea is currently undeveloped.

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Undeveloped resources, by their nature, are significantly less certain than developed resources. The discovery, determination and exploitation of undeveloped resources require significant capital expenditures and successful drilling and exploration programs. We may not be able to raise the capital we need to develop these resources.

Actual natural gas and oil prices, future production, revenues, operating expenses, taxes, development expenditures and quantities of recoverable natural gas resources will most likely vary from those estimated by us. Any significant variance could materially adversely affect the estimated quantities and present value of future net revenues set forth herein. A reduction in natural gas and oil prices, for example, would reduce the value of resources and reduce the amount of natural gas and oil that could be economically produced, thereby reducing the quantity of resources. We might adjust estimates of resources to reflect production history, results of exploration and development, prevailing natural gas prices and other factors, many of which are beyond our control.

### **The value of our common shares might be affected by matters not related to our own operating performance.**

The value of our common shares may be affected by matters that are not related to our operating performance and which are outside our control. These matters include the following:

- general economic conditions in Canada, the U.S., Romania, Morocco, Turkey and the U.K. and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and natural gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- worldwide supplies and prices of, and demand for, natural gas and oil;
- political conditions and developments in each of the countries in which we operate;
- political conditions in natural gas and oil producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and natural gas industry;
- limited trading volume of our common shares;
- change in environmental and other governmental regulations;
- announcements relating to our business or the business of our competitors;
- our liquidity; and
- our ability to raise additional funds.

In the past, companies that have experienced volatility in the trading price of their common shares have been the subject of securities class action litigation. We might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have material adverse effect on our business, financial condition and results of operation.

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### **We might not be able to obtain necessary approvals from one or more government agencies, surface owners, or other third parties, which could hamper our exploration or development activities.**

There are numerous permits, approvals, and agreements with third parties, which will be necessary in order to enable us to proceed with our development plans and otherwise accomplish our objectives. The government agencies in each country in which we operate have discretion in interpreting various laws, regulations, and policies governing operations under the licenses. Further, we may be required to enter into agreements with private surface owners to obtain access and agreements for the location of surface facilities. In addition, because many of the laws governing oil and gas operations in the countries in which we operate have been enacted relatively recently, there is only a relatively short history of the government agencies handling and interpreting those laws, including the various regulations and policies relating to those laws. This short history does not provide extensive precedents or the level of certainty that allows us to predict whether such agencies will act favorably toward us.

The governments have broad discretion to interpret requirements for the issuance of drilling permits. Our inability to meet any such requirements could have a material adverse effect on our exploration or development activities.

### **Drilling for and producing natural gas and oil are high-risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.**

Our future success depends on the success of our exploration, development and production activities in each of our prospects. These activities are subject to numerous risks beyond our control, including the risk that we will not find any commercially productive natural gas or oil reservoirs. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project unprofitable. Further, many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for natural gas and oil;
- delays imposed by, or resulting from, compliance with environmental and other regulatory requirements;
- shortage of, or delays in the availability of, drilling rigs and the delivery of equipment; and
- declines in natural gas and oil prices.

Our future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. We could incur losses by drilling unproductive wells. Shut-in wells, curtailed production and other production interruptions may materially adversely affect our business, financial condition and results of operations.

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### **Competition in the oil and gas industry is intense, and many of our competitors have greater financial, technological and other resources than we do, which may adversely affect our ability to compete.**

We operate in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including U.S.-based and foreign companies doing business in each of the countries in which we operate. We face intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in each of the following areas:

- seeking oil and gas exploration licenses and production licenses;
- acquiring desirable producing properties or new leases for future exploration;
- marketing natural gas and oil production;
- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of our competitors have substantially greater financial, managerial, technological and other resources than we do. These companies are able to pay more for exploratory prospects, and productive oil and gas properties and prospects than we can. To the extent competitors are able to pay more for properties than we are paying, we will be at a competitive disadvantage. Further, many of our competitors enjoy technological advantages over us and may be able to implement new technologies more rapidly than we can. Our ability to explore for natural gas and oil prospects and to acquire additional properties in the future will depend upon our ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

### **Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which we operate could have a material negative impact on us.**

Our interests may be affected by political and economic upheavals. Local, regional and world events could cause the jurisdictions in which we operate to change the mining laws, tax laws, foreign investment laws, or to revise their policies in a manner that renders our current and future projects unprofitable. Further, the governments in the jurisdictions in which we operate could decide to nationalize the oil and gas industry or impose restrictions and penalties on foreign-owned entities, which could render our projects unprofitable or could prevent us from selling our assets or operating our business. The occurrence of any such fundamental change could have a materially adverse effect on our business, financial condition and results of operations.

### **We may not be able to complete the exploration and development of any, or a significant portion of, the oil and gas interests covered by our leases or licenses before they expire.**

Each license or lease under which we operate has a fixed term. We may be unable to complete our exploration and development efforts prior to the expiration of licenses or leases. Failure to obtain an extension of the license or lease, be granted a new exploration license or lease or the failure to obtain a license or lease covering a sufficiently large area would prevent or limit us from continuing to explore and develop a significant portion of the oil and gas interests covered by the license or lease. The determination of the amount of acreage to be covered by the production licenses is in the discretion of the respective governments.

### **We are subject to complex laws and regulations, including environmental regulations, which can have a material adverse effect on our cost, manner or feasibility of doing business.**

Exploration for and exploitation, production and sale of oil and gas in each country in which we operate is subject to extensive national and local laws and regulations, including complex tax laws and environmental laws and regulations, and requires various permits and approvals from various governmental agencies. If these permits are not issued or unfavorable restrictions or conditions are imposed on our drilling activities, we might not be able to conduct our operations as planned. Alternatively, failure to comply with these laws and regulations, including the requirements of any permits, might result in the suspension or termination of operations and subject us to penalties. Our costs to comply with these numerous laws, regulations and permits are significant. Further, these laws and regulations could change in ways that substantially increase our costs and associated liabilities. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may harm our business, results of operations and financial condition. See Item 4.B. – “Material Effects of Governmental Regulations” and Item 4.D. – “Property, Plant and Equipment.”

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### **We do not plan to insure against all potential operating risks. We might incur substantial losses from, and be subject to substantial liability claims for, uninsured or underinsured risks related to our natural gas and oil operations.**

We do not intend to insure against all risks. Our natural gas and oil exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting natural gas and oil, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling, and service tools and casing collapse;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

We might elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a material adverse affect on our business, financial condition or results of operations.

### **We are subject to operating hazards.**

The oil and gas business involves a variety of operating risks, including the risk of fire, explosion, blowout, pipe failure, casing collapse, stuck tools, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, pipeline ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to us due to injury and loss of life, loss of or damage to well bores and/or drilling or production equipment, costs of overcoming downhole problems, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Gathering systems and processing facilities are subject to many of the same hazards and any significant problems related to those facilities could adversely affect our ability to market our production.

### **We are dependent on key personnel.**

We depend to a large extent on the services of Scott Larsen, our President and CEO, Dr. David Campbell, our International Exploration Manager, and Dr. Weldon Beauchamp, our Consulting Geologist/Geophysicist. The loss of the services of any of these individuals could have a material adverse effect on our operations.

### **Our small size and the number of staff impacts our internal controls.**

Due to the limited number of staff, it is not possible to achieve complete segregation of duties, nor do we currently maintain written policies and procedures at our international offices. We must engage accounting assistance with respect to complex, non-routine accounting issues, Canadian GAAP matters, tax compliance, and reporting for our international operations. At the present time, we have no plans to increase the size of our staff.

### **Our officers and directors may have conflicts of interest.**

There may be potential conflicts of interest for certain of our officers and directors who are or may become engaged from time to time on their own behalf or on behalf of other companies with which they may serve in the capacity as directors or officers. Certain of our outside directors are officers and/or directors of other publicly traded financial services, crude oil and natural gas exploration and production companies. See Item 6 – “Directors, Senior Management and Employees.”

**Item 4. Information on the Company**

**A. History and Development of the Company**

**Incorporation, Amalgamation and Name Change.** Our predecessor corporation, Profco Resources Ltd. (“Profco”), was incorporated under the laws of British Columbia on October 1, 1985 and continued under the *Business Corporations Act* (Alberta) on June 10, 1997. We filed articles of amalgamation on January 1, 1999 under the *Business Corporations Act* (Alberta) in order to amalgamate with GHP Exploration Corporation, a corporation continued under the laws of Alberta from the Territory of Yukon. By articles of amendment effective December 2, 1998, Profco changed its name to TransAtlantic Petroleum Corp.

**Contact Information.** Our head office is located at Suite 1840, 444 - 5th Ave. S.W., Calgary, Alberta, T2P 2T8. Our registered office is located at Suite 3700, 400 - 3rd Ave. S.W., Calgary, Alberta T2P 4H2. The telephone number at our head office is (403) 262-8556. Certain of our activities are conducted out of the office of our wholly owned subsidiary, TransAtlantic Petroleum (USA) Corp., located at Suite 1755, 5910 N. Central Expressway, Dallas, Texas, 75206. Our internet address is [www.tapcor.com](http://www.tapcor.com). Our contact person is Scott C. Larsen, President and Chief Executive Officer.

**Development of Our Business.** We are in the business of exploring, developing and producing crude oil and natural gas properties. Until 2003, we concentrated our efforts on properties located onshore and offshore Africa. In 1992, we acquired a 30% interest in OML 109, a 215,000 acre concession located offshore Nigeria. We successfully drilled a discovery well in 1994 and an appraisal well in 1995 in the Ejulebe field on OML 109, and contracted with a service provider to develop the field. Production began in September 1998, and the Ejulebe field has produced approximately 11 million bbls of crude oil as of December 2005 (an estimated greater than 50% recovery of oil in place). Following our participation in OML 109, we drilled several unsuccessful exploration wells offshore Benin and onshore Tunisia. We then attempted to exploit two onshore Egyptian oil and gas exploration blocks. In 2001, we sold our Egyptian properties, reduced our staff and consolidated all of our day-to-day operations. We focused on monetizing our interest in OML 109.

During 2004, 2005 and 2006, we focused our efforts on acquiring high-impact international properties, evaluating and acquiring lower-risk cash flow opportunities in the U.S. and disposing of OML 109. OML 109 was sold in June 2005, and we retained a net profits interest of \$16 million based on future exploration success. Absent a new discovery on OML 109 by the new owner, the retained net profits interest will not yield any revenue to us. During 2005 and 2006, we acquired an exploration permit and a reconnaissance license in Morocco, three production blocks in Romania, three exploration licenses in Turkey and two promote round licenses covering six blocks in the U.K. North Sea. During this same period, we acquired and presently operate properties in South Texas and East Texas. We also held working interests in five other properties in East Texas, Oklahoma and Louisiana in which we were not the operator. In December 2006, we sold our non-operated working interest in the Bayou Couba property in Louisiana. In 2007, we were awarded three additional exploration licenses in southeastern Turkey.

**International**

**Morocco.** In June 2005, we were awarded the Guercif - Beni Znassen reconnaissance license covering 13,750 square kilometers (3.4 million acres) in northeastern Morocco. Under a reconnaissance license, the government grants exploration rights for a one-year term to conduct seismic and other exploratory activities, but not drilling. We operate and hold a 60% interest in the Guercif—Beni Znassen reconnaissance license. Stratic Energy Corporation (TSX-V: SE) is a 40% partner in the project. We have reprocessed 2D seismic, flown an aeromagnetic/aerogravity survey over the block and conducted geochemical studies in an effort to identify prospective areas. The license term expired at the end of June 2007, and we are currently in exclusive ongoing discussions with the government to convert the license into one or more exploration permits.

In May 2006, we were awarded the Tselfat exploration permit covering 900 square kilometers (222,345 acres) in northern Morocco. The permit expires in May 2014. Under an exploration permit, the government grants rights for up to eight years for exploration and appraisal studies and operations which are undertaken in order to establish the existence of oil and gas in commercially exploitable quantities. The eight-year term is divided into three separate time frames of 2-3 years each. To retain the permit past the initial three-year term, we are required to shoot a 3D survey and drill an exploratory well. The Tselfat exploration permit covers three abandoned fields, Haricha, Tselfat and a portion of the Bou Draa field, which were discovered in 1954, 1918 and 1934, respectively. We have posted a \$3.0 million bank guarantee against a work program commitment that

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includes shooting a 3D survey over the Bou Draa and Haricha fields and then drilling an exploratory well to test the previously untested deeper formations. We also anticipate being able to recover remaining resources from the previously produced formations in each of the abandoned fields. In August 2007, we reached an agreement to farmout 50% of our interest in the Tselfat exploration permit to Sphere Petroleum QSC ("Sphere"). In exchange for an option to acquire 50% of our interest in the Tselfat permit, Sphere will fund the costs to acquire a 110 square kilometer (27,181 acres) 3D seismic survey to be shot over the Haricha field and northern portion of the Bou Draa field in early 2008 and will also fund the cost of additional geological studies. It is estimated the 3D survey and the studies will cost approximately \$4.5 million over the next year. Upon its exercise of the option, Sphere will (i) fund the drilling and testing of an exploratory well; and (ii) replace our bank guarantee deposited with the Moroccan government.

**Romania.** In February 2006, we were awarded three production licenses in Romania. We received final government approval of the licenses in September 2007. The three licenses, Izvoru, Vanatori and Marsa, each cover about 5 square kilometers (1,200 acres) and are located within 100 kilometers of Romania's capital, Bucharest, in an area known as the Moesia platform. All three fields produced oil and gas but were not fully developed. The licenses were awarded to us based upon certain work programs, such as shooting seismic and drilling or reentering wells, on each of the respective fields over the next three years. The work programs for the three fields total about \$9.0 million and must be completed by September 2010. We are the operator and 100% working interest owner of the fields. We shot a 3D seismic survey over Izvoru and 2D surveys over the other two fields in late 2006 and are presently conducting engineering studies which will be merged with the seismic results to provide a field development plan.

**U.K. North Sea.** In September 2006, we were awarded licenses covering six blocks in the U.K. North Sea 23<sup>rd</sup> Seaward Licensing Round. The six blocks, which cover 1,500 square kilometers (370,500 acres), lie in the Auk Basin, an area of the North Sea between the producing areas of the Southern Gas Basin and Central North Sea. We have a two-year period that commenced in December 2006 within which to conduct technical studies and acquire and reprocess seismic data. The license will expire in December 2007 if we have not made a firm commitment to the Department of Trade and Industry (the "DTI") to complete a work program. We can perpetuate the license by committing, prior to December 2007, to drill an exploratory well before the fourth anniversary of the license. We are presently evaluating the reprocessed seismic over the area and are actively seeking partners for a farmout of the property.

**Turkey.** In June 2006, we were awarded three exploration licenses in southeastern Turkey. Two of the licenses are located near the town of Bismil on the Tigris River adjacent to two producing oil fields. The third license is located near Cizre about 60 kilometers from the Iraq border. The three licenses together cover a total of 660 square kilometers (162,762 acres) and expire in June 2010. The licenses were awarded to us based upon work programs on each of the respective areas involving technical studies, reprocessing of data and contingent plans for drilling wells. We are the operator and 100% working interest owner of the licenses.

In August 2007, we were awarded three additional exploration licenses, all of which are in southeastern Turkey on the border with Iraq. The three new licenses cover a total of 1,354 square kilometers (334,618 acres) and expire in June 2011. Upon a commercial discovery, each exploration license would be converted to a 20-year production lease which bears a 12.5% royalty. These additional licenses will also involve a work program, including technical studies, reprocessing of data and contingent plans for drilling wells. We will be the operator and 100% working interest owner of the licenses.

**Nigeria.** In June 2005, we sold our interest in OML 109 and retained a net profits interest of up to \$16 million based on future exploration success. We originally acquired an interest in OML 109 in 1992. We drilled both a discovery well and the first appraisal well in the Ejulebe field in 1994 and 1995. The Ejulebe field went into production in September 1998 and had produced about 11 Mmbbls through the date of sale. The new owner has drilled two wells since the sale and the field currently produces about 1,500 Bbls/d. Absent a new discovery on OML 109 by the new owner, the retained net profits interest will not yield any revenue to us.

**United States.** In April 2005, we acquired the South Gillock and State Kohfeldt Units located in Galveston County, Texas. The property is on the flank of a large salt dome covering approximately 6,000 acres with 61 wells, most of which are temporarily abandoned. We are the operator and 100% owner of the property. The field currently produces a total of approximately 60 Boe/d from two wells. We conducted an extensive workover program in late 2005 and early 2006 in an attempt to increase production from existing wells. One well was producing at a rate of 500-600 Mcf/d for much of 2006 but had to be shut in due to casing collapse in December 2006.

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We commenced drilling the SGU #96 well on the South Gillock property in February 2007. This well tested the existing producing formation, the Big Gas Sand, as well as certain deeper middle Frio formations. On June 29, 2007, we announced that the well had been completed in the Big Gas Sand formation and was producing approximately 1,000 Mcf per day.

In late 2006, we participated for our 20% non-operated working interest in a well being drilled on the Oswego property in Dewey County, Oklahoma. The well is being completed as of September 15, 2007. A second property located in McClain County, Oklahoma is currently the subject of a declaratory judgment action that we filed to declare that prior leases lapsed due to lack of production. We have filed, and are awaiting a decision on, a motion for summary judgment. The McClain County property that is the subject of the declaratory action and the outcome of the litigation are not material to us.

In January 2006, we acquired the Jarvis Dome property in Anderson County, Texas covering 170 acres with two wells on it. We are the operator and 100% owner of the property. We have since leased an additional 630 acres. We re-entered and recompleted one of the wells as a stripper oil well, which produced an average of 4 bbls/d until it was shut-in in March 2007. We re-entered and sidetracked the second well in the Pecan Gap formation. This well was tied into a gas pipeline in December 2006 and is currently producing about 60 Mcf/d.

In 2005, we participated for a 20% non-operated working interest in two wells drilled in Panola County, Texas. One of the wells is currently producing at a rate of 40 Mcf/d. The other well is temporarily abandoned as non-commercial and is being evaluated.

In December 2006, we sold our interests in the Bayou Couba property located in St. Charles Parish, Louisiana and our interests in debentures we held of American Natural Energy Corporation ("ANEC"), the operator of the Bayou Couba property, to Dune Energy, Inc. for \$2 million. The sale included our 10% working interest and related interests and all of the 8% secured debenture issued by ANEC in the principal face amount of \$3.0 million held by us (the "Debenture"). We had acquired our 10% interest in the Bayou Couba property in 2003 when we financed the drilling of four wells on the property for a \$2 million production payment. The production payment was repaid in October 2003. During 2004 and 2005, we participated in drilling wells on the property; however, the two exploration wells drilled to test the deep gas potential on the flanks of the Bayou Couba dome were unsuccessful. We had purchased the Debenture in October 2003. Due to the lack of drilling success, in 2005 we wrote down our investment in the Debenture to \$900,000. In August 2005, in exchange for indebtedness owed to us, we acquired 2,237,136 shares of ANEC in a private placement for \$268,456 or U.S. \$0.12 per share. This investment was written down to the equivalent of US \$0.07 per share at the end of 2005 and is carried at no value as of December 31, 2006.

**Principal Capital Expenditures and Divestitures.** The following table sets forth our principal capital expenditures and divestitures during 2004, 2005 and 2006:

### **Principal Capital Expenditures and Divestitures** (In thousands of U.S. dollars)

Expenditure Type	2006	2005	2004
Property acquisition	\$ —	\$3,892	\$ —
Drilling (leasing, exploration and development)	4,737	947	1,694
Facilities and equipment	—	—	12
Divestiture of property and equipment	(1,500)	—	(155)
Total Capital Expenditures and Divestitures	\$ 3,237	\$4,839	\$1,551

## **B. Business Overview**

**Nature of Our Operations.** We are engaged in oil and gas exploration and production. Our current activities are focused on:

- developing the oil and gas properties in our portfolio;
- farming out or securing partners for our international properties;
- acquiring additional exploration and development opportunities in the countries in which we presently operate; and

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- realizing value from our onshore U.S. properties (which could include selling, drilling or farming out).

Our success will depend on discovering hydrocarbons in commercial quantities and then bringing the discoveries into production. Our ability to achieve drilling and production success will depend upon obtaining sufficient capital. As to new opportunities, our success will depend on whether we are able to locate and successfully negotiate for oil and gas opportunities in foreign countries which meet our criteria and then successfully exploring for and producing oil and gas from those prospects. Our success will also depend on how well our properties in the U.S. perform. The risks associated with these plans are outlined above under “Risk Factors.” We utilize the latest geophysical and geological technologies to reduce the risks associated with our oil and gas exploration. In the U.S., we will seek to realize value from our properties through drilling, farmouts and sales. All of our production to date as disclosed in later sections of this registration statement is from U.S. properties.

**Principal Markets.** As at December 31, 2006, we operate in one reportable segment, the exploration for, and the development and production of, crude oil and natural gas. Identifiable assets, revenues and net loss in each of our geographic areas are as follows:

2006 (In thousands of U.S. dollars)	Identifiable Assets (Liabilities)	Revenues	Loss
United States	\$ 4,709	\$ 1,604	\$6,631
Morocco	3,414	—	859
Romania	1,894	—	605
Corporate assets	5,375	9	1,318
	<u>\$ 15,392</u>	<u>\$ 1,613</u>	<u>\$9,413</u>
2005			
United States	\$ 11,094	\$ 1,400	\$2,922
Morocco	644	9	67
Corporate assets	7,189	—	784
	<u>\$ 18,927</u>	<u>\$ 1,409</u>	<u>\$3,773</u>
2004			
United States	\$ 3,880	\$ 744	\$2,288
Canada	(134)	—	2,367
Nigeria	198	4,364	538
Corporate assets	12,106	—	—
	<u>\$ 16,048</u>	<u>\$ 5,108</u>	<u>\$5,193</u>

**Seasonality.** Seasonality has no material effect on our financial condition or results of operations.

**Marketing Channels.** Crude oil production from our U.S. properties is sold under market sensitive or spot price contracts. Natural gas production from these properties is sold to purchasers under varying percentage-of-proceeds and percentage-of-index contracts or by direct marketing to end users or aggregators. By the terms of the percentage-of-proceeds contracts, we receive a percentage of the resale price paid to the purchaser for sales of residue gas and natural gas liquids recovered after gathering and processing the natural gas. The residue gas and natural gas liquids sold by these purchasers are sold primarily based on spot market prices. The revenue from the sale of natural gas liquids is included in natural gas sales.

**Drilling Contractors.** As discussed above in “Risk Factors,” shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail our exploration and development operations, which may materially adversely affect our business, financial condition and results of operation.

**Material Effects of Governmental Regulations.** Our activities are subject to existing federal, state and local laws and regulations governing environmental quality and pollution control. It is anticipated that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations concerning the protection of the environment and human health will not have a material effect upon

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our operations, capital expenditures, earnings or competitive position. We cannot predict what effect additional regulation or legislation, enforcement policies thereunder and claims for damages for injuries to property, employees, other persons and the environment resulting from our operations could have on our activities. Our activities with respect to exploration, development and production of oil and natural gas are subject to stringent environmental regulation by state and federal authorities including the United States Environmental Protection Agency ("EPA"). Such regulation has increased the cost of planning, designing, drilling, operating and in some instances, abandoning wells. In most instances, the regulatory requirements relate to the handling and disposal of drilling and production waste products and waste created by water and air pollution control procedures. Although we believe that compliance with environmental regulations will not have a material adverse effect on our operations or earnings, risks of substantial costs and liabilities are inherent in oil and gas operations. Moreover, it is possible that other developments, such as stricter environmental laws and regulations, and claims for damages for injuries to property or persons resulting from our operations could result in substantial costs and liabilities.

*Waste Disposal.* We currently own or lease, and have owned or leased, numerous properties that for many years have been used for the exploration and production of oil and gas. Although we believe operating and disposal practices that were standard in the industry at the time were utilized, hydrocarbons or other wastes may have been disposed of or released on or under the properties we owned or leased or on or under other locations where such wastes have been taken for disposal. In addition, these properties may have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. State and federal laws applicable to oil and natural gas wastes and properties have become more strict over time. Under such laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators) or property contamination (including groundwater contamination) or to perform remedial plugging operations to prevent future contamination. Wastes, including hazardous wastes, are generated during oil and gas activities that are subject to the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA and various state agencies have limited the disposal options for certain hazardous and non-hazardous wastes and are considering the adoption of stricter disposal standards for non-hazardous wastes. Furthermore, certain wastes generated by oil and natural gas operations that are currently exempt from treatment as hazardous wastes may in the future be designated as hazardous wastes, and therefore be subject to more rigorous and costly operating and disposal requirements.

*CERCLA.* The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the owner and operator of a site and persons that disposed of or arranged for the disposal of the hazardous substances found at a site. CERCLA also authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from responsible classes of persons the costs of such action. In the course of our oil and gas operations, wastes may be generated that fall within CERCLA's definition of "hazardous substances." We may also be an owner of sites on which "hazardous substances" have been released and, as a result, may be responsible under CERCLA for all or part of the costs to clean up sites at which such wastes have been released. To date, however, we have not and, to our knowledge, our predecessors or successors have not, been named a potentially responsible party under CERCLA or similar state superfund laws affecting property we now own or lease.

*Air Emissions.* Our operations are subject to local, state and U.S. federal regulations for the control of emissions of air pollution. Legal and regulatory requirements in this area are increasing. We may incur significant costs and liabilities in the future as a result of new regulatory developments. In particular, regulations promulgated under the Clean Air Act Amendments of 1990 may impose additional compliance requirements that could affect our operations. However, it is impossible to predict accurately the effect, if any, of the Clean Air Act Amendments on us at this time. We may in the future be subject to civil or administrative enforcement actions for failure to comply strictly with air regulations or permits. These enforcement actions are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could require us to forego construction or operation of certain air emission sources.

*OSHA.* We are subject to the requirements of the U.S. Occupational Safety and Health Act ("OSHA") and comparable U.S. state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require us to prepare information about hazardous materials used, released or produced in oil and gas

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operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the requirements and reporting set forth in OSHA workplace standards.

*OPA and Clean Water Act.* U.S. federal regulations require certain owners or operators of facilities that store or otherwise handle oil, such as us, to prepare and implement spill prevention control plans, countermeasure plans and facilities response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act 1990 (“OPA”) amends certain provisions of the federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act (“CWA”), and other statutes as they pertain to the prevention of, and response to, oil spills into navigable waters. OPA subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other damages arising from a spill, including, but not limited to, the costs of responding to a release of oil to surface waters. CWA provides penalties for any discharges of petroleum products in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground. Regulations are currently being developed under OPA and state laws concerning oil pollution prevention and other matters that may impose additional regulatory burdens on us. In addition, the CWA and analogous state laws require permits to be obtained to authorize discharges into surface waters or to construct facilities in wetland areas. The EPA has adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, participate in a group permit or seek coverage under an EPA general permit. We believe that we are in material compliance with all permits that are required to be obtained and that obtaining such permits in the future will not have a material adverse impact on our operations in the future. With respect to future operations, we believe we will be able to obtain, or be included under, such permits, where necessary.

*NORM.* Oil and gas exploration and production activities have been identified as generators of concentrations of low-level naturally-occurring radioactive materials (“NORM”). NORM regulations have been adopted in several states. We are unable to estimate the effect of these regulations.

*Safe Drinking Water Act.* Our operations may involve the disposal of produced saltwater and other non-hazardous oilfield wastes by re-injection into the subsurface. Under the U.S. Safe Drinking Water Act (“SDWA”), oil and gas operators must obtain a permit for the construction and operation of underground Class II injection wells. To protect against contamination of drinking water, periodic mechanical integrity tests are often required to be performed by the well operator. While we expect to be able to obtain all such permits as are required, there can be no assurance that these requirements may not cause us to incur additional expenses.

*Toxic Substances Control Act.* The Toxic Substances Control Act (“TSCA”) was enacted to control the adverse effects of newly manufactured and existing chemical substances. Under the TSCA, the EPA has issued specific rules and regulations governing the use, labeling, maintenance, removal from service and disposal of PCB items, such as transformers and capacitors used by oil and gas companies. We may own such PCB items.

At December 31, 2006, we are unable to estimate the costs to be incurred for compliance with environmental laws over the next twelve months, however, management believes all such costs will be those ordinarily and customarily incurred in the development and production of oil and gas and that no costs outside the ordinary course of business will be realized.

### **C. Organizational Structure**

We conduct the majority of our business through subsidiaries incorporated outside of Canada. The following table presents the name, the percentage of voting securities owned and the jurisdiction of incorporation of our principal subsidiaries:

<u>Subsidiary</u>	<u>Percent Owned</u>	<u>Jurisdiction of Incorporation</u>
TransAtlantic Petroleum (USA) Corp	100%	Colorado
TransAtlantic Worldwide, Ltd.	100%	Bahamas
TransAtlantic Maroc, Ltd.	100%	Bahamas

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We own, directly or indirectly, 100% of four other subsidiary corporations, which on a consolidated basis constitute less than 10% of our assets and operating revenues. TransAtlantic Maroc, Ltd. and TransAtlantic Worldwide Romania SRL are 100% owned by TransAtlantic Worldwide, Ltd.

### **D. Property, Plant and Equipment**

**United States.** On April 15, 2005, we acquired the South Gillock and State Kohfeldt Units covering over 6,000 acres onshore in Galveston County, Texas. The field began producing in the 1940's and the two units combined have produced over 65 Mmbbls of oil from the Big Gas Sand of the Frio formation which ranges in depth between 7,800 and 9,600 feet in the units. The units were originally operated by Amoco. We believe there are remaining gas reserves in the gas cap of the South Gillock Unit and its acquisition was premised on this belief. Since the acquisition, we have engaged in a workover program entering existing wells. This work doubled production from 60 Boe/d at the time of the acquisition to about 135 Boe/d in March 2006, but the casing failed in the SGU #83 well in December 2006 causing the production to drop back to its initial 60 Boe/d level at year end. There are 61 wells on the units of which two are producing and the remaining wells are temporarily abandoned. We commenced the drilling of the SGU #96 well in February 2007 to test the Big Gas Sand as well as deeper Frio formations below the Big Gas Sand. On June 29, 2007, we announced that the well had been completed in the Big Gas Sand formation and was producing approximately 1,000 Mcf per day. We are the operator and own 100% of the working interest with a net revenue interest of 77%. The report of Netherland, Sewell & Associates, Inc. indicates proved reserves of 7,400 barrels of oil, 1,500 barrels of condensate and 551 Mmcf of natural gas at the South Gillock and State Kohfeldt Units as of December 31, 2006.

The initial acquisition of the South Gillock and State Kohfeldt Units covered only the unitized Big Gas Sand formation. In November 2005, we completed a transaction for the shallow and deep leasehold rights from BP America Production Company. We paid \$186,000 for a two-year option on deep rights covering 2,731 acres over the northern portion of the South Gillock Unit and a three-year term assignment over the same 2,731 acres for the shallow rights.

When we initially acquired the South Gillock and State Kohfeldt Units, we budgeted approximately \$10,000 per well for plugging and abandonment costs based on third party contractor bids to perform the abandonment. Costs to plug and abandon wells have dramatically increased over the past two years and the estimated cost for plugging and abandoning these wells is now \$34,000 per well.

In Oklahoma, we leased two properties, one in Dewey County (1,150 net acres) and one in McClain County (110 net acres). We participated for a 20% working interest in a well drilled on the Dewey County property at the end of 2006 and is being completed as of September 15, 2007. In the McClain County property, we are trying to clear up some title issues prior to developing the property. In Texas, we participated for a 20% interest in two wells in Panola County, Texas in 2005 (257 net acres); one of the wells was non-commercial and is being evaluated and the other is currently producing at a rate of 40 Mcf/d. We are trying to promote a farmout to test deeper formations on the Panola County property. We are also a 20% participant in a property in Gregg County, Texas (324 net acres) and are likewise trying to promote a farmout on that acreage. There are currently no reserves associated with any of these properties.

In the first quarter of 2006, we acquired the Jarvis Dome property in Anderson County, Texas which included two wells and leases covering 170 acres for \$220,000. Since acquisition, we have leased an additional 630 acres. We are the operator and own 100% of the working interest in the property (we reacquired the previously outstanding 20% back-in after payout in February 2007). The initial work program on Jarvis Dome consisted of recompleting one of the existing wells and sidetracking the other existing well. This second well was sidetracked in the Pecan Gap formation in the second quarter of 2006. The well is producing gas but not at the quantities that had been anticipated; the well currently averages about 60 Mcf/day. Plans to drill a well to test the Woodbine formation have been suspended. The report of Netherland, Sewell & Associates, Inc. indicates proved reserves of 1,400 barrels of oil and 98.4 Mmcf of natural gas at the Jarvis Dome property as of December 31, 2006.

**Morocco.** In June 2005, we were awarded the Guercif - Beni Znassen Reconnaissance License covering 13,750 square kilometers (3.4 million acres) onshore in northeastern Morocco. We operate and hold a 60% interest in the reconnaissance license. Stratic Energy Corporation is a 40% partner in the project. The license provides us with exclusive rights to explore the area. The Guercif - Beni Znassen areas contain large structures and all of the elements for oil and gas resources: source rock, reservoir rock and traps. We have reprocessed 4,300 kilometers

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of 2D seismic, flown an aeromagnetic/aerogravity survey over the northern portion of the block and conducted geochemical studies. The license term expired at the end of June 2007, and we are currently in exclusive ongoing discussions with the government to convert the license into one or more exploration permits.

In May 2006, we were awarded the Tselfat exploration permit covering 900 square kilometers (222,345 acres) in northern Morocco. Tselfat has three fields, Haricha, Bou Draa and Tselfat, that produced from the early 1920s to 1970s, with limited production continuing into the 1990s. All of the wells are presently either shut-in or abandoned. The exploration permit expires in May 2014. In August 2007 we reached an agreement to farmout 50% of our interest in the Tselfat exploration permit to Sphere. In exchange for an option to acquire 50% of our interest in the Tselfat permit, Sphere will fund the costs to acquire a 110 square kilometers 3D seismic survey to be shot over the Haricha field and northern portion of the Bou Draa field in early 2008 and will also fund the cost of additional geological studies. It is estimated the 3D survey and the studies will cost approximately \$4.5 million over the next year. Upon its exercise of the option, Sphere will (i) fund the drilling and testing of an exploratory well; and (ii) replace our bank guarantee deposited with the Moroccan government.

While historical production estimates are difficult, historical data suggests cumulative production is in the range of 4 Mmbbls of oil and 8 Bcf of gas for the three fields. The Tselfat permit provides several opportunities including redevelopment of the existing fields, extensions of known productive horizons and exploration of higher impact targets at depth. There are currently no reserves associated with our Moroccan properties.

*Historical Production.* The Haricha Field was discovered in 1954 on a large surface anticline with hydrocarbon seeps. The field was developed with 30 wells drilled to a depth of less than 2,000 meters and produced approximately 2.6 Mmbbls of oil and 7.8 Bcf of gas from porous Jurassic age sandstones. There is no current production. The field is a complex structural trap formed by a thrust fault that has not been fully exploited. Based on available 2-D seismic, we believe potential exists for a deeper sub-thrust play below the known productive horizon.

The Bou Draa field was discovered in 1934. The Bou Draa structure is a large surface anticline generated by a regional thrust fault. The surface anticline, that has a topographic expression extending for approximately 10 kilometers, was discovered by wells drilled on hydrocarbon seeps. Over 140 shallow wells were drilled in a 6 square kilometers area and produced less than 1 Mmbbls recorded production of light oil from fractured carbonates and sandstones. We believe that hydrocarbon reserves can be recovered using horizontal drilling techniques, artificial stimulation and reservoir pressure maintenance. We believe further upside potential may exist in sub-thrust reservoirs in Jurassic age sandstones. The Bou Draa field is located near the city of Sidi Kacem where there is an active refinery that was originally built to refine oil from the Bou Draa and Haricha Fields.

The Tselfat field was discovered in 1918 by wells drilled on a surface anticline with hydrocarbon seeps. More than 90 shallow wells were drilled and produced less than 500,000 barrels of oil recorded production from Jurassic carbonate reservoirs.

*Proposed Work Program.* Since the award of the Tselfat permit in May 2006, we have been collecting, collating, digitizing and reviewing all of the existing well, production, seismic and other data. We will likely reprocess some of the 2D seismic that exists over the block. In addition, subject to financing, we plan to shoot a 3D survey over the Bou Draa and Haricha fields in early 2008. This would then be followed by an exploratory well to test the previously untested Jurassic formations in the sub-thrust. As to the existing fields, we have initiated an engineering study over the Haricha field to determine the original resources in place, estimate historical production, determine recoverable resources that remain and develop a plan to access any remaining resources.

*Commercial Terms.* Pursuant to a Petroleum Agreement (and the companion Association Contract) dated May 18, 2006, we committed to a work program during the initial three-year period that will involve shooting a 3D seismic survey over an area of at least 50 square kilometers and drilling a well to a depth exceeding 2,000 meters. We have posted a \$3.0 million bank guarantee in support of the program. During the exploration phase, we will operate and bear 100% of the costs to earn a 75% interest. The national oil company of Morocco, National des Hydrocarbures et des Mines ("ONHYM"), is carried for 25% of the costs during the exploration phase which is governed by the Petroleum Agreement. Once a discovery is made, the area covered by the discovery is converted into an exploitation concession which is governed by the Association Contract. Under the exploitation concession, we (75%) and ONHYM (25%) will each pay our share of costs. Upon conversion

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to an exploitation concession, we pay a discovery bonus of \$500,000 to ONHYM. When certain sustained daily production levels are reached, we pay a one-time production bonus (15,000 Bbbls/d - \$750,000; 25,000 Bbbls/d - \$1 million; 35,000 Bbbls/d - \$2 million and 50,000 Bbbls/d - \$3 million). These production bonuses are treated as development costs for tax purposes. There is a ten-year tax holiday on revenues from petroleum production commencing in the year in which production begins. After ten years, the corporate tax rate is 30%. Oil and gas exploration activities are exempt from both value added tax and customs duties. The royalty paid to the government for onshore production is 10% on oil and 5% on gas. In addition, the first approximately 2.1 Mmmbbl of oil production and the first approximately 11 Bcf of gas production are exempt from royalty. Once an area is converted into an exploitation concession, we pay annual surface rentals of \$2.85 per acre.

*Licensing Regime.* The licensing process in Morocco for oil and gas concessions occurs in three stages: Reconnaissance License, Exploration Permit and then Exploitation Concession. Under a Reconnaissance License, the government grants exploration rights for a one-year term to conduct seismic and other exploratory activities (but not drilling). The size may be very large and generally is unexplored or under-explored. The Reconnaissance License may be extended for up to one additional year. Interests under a Reconnaissance License are not transferable. The recipient of a Reconnaissance License commits to a work program and posts a bank guarantee in the amount of the estimated cost for the program. At the end of the term of the Reconnaissance License, the license holder must designate one or more areas for conversion to an Exploration Permit or relinquish all rights.

An Exploration Permit, which is codified in a Petroleum Agreement, is for a term of up to eight years and covers an area not to exceed 2,000 square kilometers. Under an Exploration Permit, exploration and appraisal studies and operations are undertaken in order to establish the existence of oil and gas in commercially exploitable quantities. This generally entails the drilling of exploration wells to establish the presence of oil and/or gas and such additional appraisal wells as may be necessary to determine the limits and the productive capacity of a hydrocarbon deposit to determine whether or not to go forward to develop and produce the prospect. The eight-year term under an Exploration Permit is divided into three separate time frames of 2-3 years each. A distinct work program is negotiated for each separate term and the oil company then must post a bank guarantee to cover the cost of the work program for that term. The interests under an Exploration Permit are 75% to the oil company and 25% to ONHYM. Interests under an Exploration Permit are transferable. However, 100% of the costs of all activities under an Exploration Permit are borne by the oil company.

An Exploitation Concession is applied for upon the discovery of a commercially exploitable field. The concession size corresponds to the area of the commercial discovery. The maximum duration of an Exploitation Concession is 25 years. Once an Exploitation Concession becomes effective, then the costs incurred for the development of the field are to be funded by the parties in proportion to their respective percentage interests (75% oil company, 25% ONHYM). The oil company serves as operator. The oil company and ONHYM enter into an Association Contract (similar to a joint operating agreement) to govern operations on the concession. Interests under an exploitation concession are transferable. All production is sold at market prices. A bonus (the amount of which is negotiated at the time of negotiation of a Petroleum Agreement) is paid to the government by the oil company upon conversion to an Exploitation Concession. Additional production bonuses are also paid when certain production levels from the Exploitation Concession are achieved. The levels of production and the amount of production bonuses are negotiated as part of a Petroleum Agreement. The bonuses are deductible for tax purposes.

**Romania.** In February 2006, we were awarded three onshore production licenses by the Romanian government in the 7<sup>th</sup> Licensing Round. The three oil and gas fields, Izvoru, Vanatori and Marsa, each cover about five square kilometers (1,200 acres). They were discovered by the former national oil company and are all located within 100 kilometers of Romania's capital, Bucharest. The licenses were awarded to us based upon certain work programs on each of the respective fields over three years, including shooting seismic and drilling or re-entering wells. There is no current production from any of the fields. The work programs for the three fields total about \$9.0 million and must be completed by September 2010. We will be the operator and 100% working interest owner of the fields.

All three fields previously produced oil, gas or both but were not fully developed. Discovered in 1968, the Izvoru field produced 1.35 Mmmbbls of oil from 26 wells. Completion difficulties and sand production resulted in limited flow rates and recoveries and led to field abandonment in 1998. Izvoru is a stratigraphic play and produces from Sarmatian (Tertiary age) shallow marine sandstones (about 4,000 feet sub sea). Additionally, there is deeper potential in Cretaceous Albian age limestones which are productive in adjacent fields and were

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penetrated by four wells in the Izvoru field but not developed. The initial work program will include re-entering up to nine wells. We shot a 25 square kilometers 3-D seismic survey over the Izvoru Field in late 2006. The seismic results will be merged with engineering studies to provide a field development plan.

Vanatori and Marsa fields were both discovered in the 1970's. Five wells were drilled in the Vanatori Field, two of which produced a total of 1.3 Bcf of gas over six years from the Samatian formation at a depth of 5,600 feet. We believe there is also deeper Cretaceous potential in the field. The Vanatori Field was abandoned due to sand production and water invasion. In the Marsa field, five wells were drilled of which three were productive. Between 1974 and 1983, these wells produced a cumulative 0.3 Bcf from the Meotian (Tertiary age) reservoir at a depth of 2,100 feet. We shot a 2-D seismic survey over both of these fields in late 2006. The seismic results will be merged with engineering studies to provide a field development plan. There are currently no reserves associated with our Romanian properties.

*Commercial Terms.* Romania's current petroleum laws provide a framework for investment and operation that allows foreign investors to retain the proceeds from the sale of petroleum production. The fiscal regime is comprised of royalties, excise tax and income tax. Two forms of royalty are payable:

- A percentage of the value of gross production on a field basis, such percentage being fixed on a sliding scale depending on production levels. The production royalty rate varies between 3.5% to 13.5% for crude oil and between 3% to 13% for natural gas production; and
- A fixed percentage of the gross income obtained from the transportation and transit of petroleum through the national pipeline system and from petroleum operations carried out through oil terminals belonging to the state. The royalty rate is currently fixed at 5%.

The license holder pays corporate income tax, but enjoys a one-year income tax holiday from the first day of production. Corporate income tax is assessed at a rate of 16%. All costs incurred in connection with exploration, development and production operations are deductible for corporate income tax purposes. Excise duty is payable on crude oil and natural gas at the rate of 4 euro per tonne (7.9 bbls) of crude oil and 7.4 euro per 1,000 cubic metres (35.3 mcf) of natural gas. Excise tax is not payable on crude oil or natural gas delivered as royalty to the government, or on quantities directly exported. Resident companies which remit dividends outside of Romania to non-EU countries are subject to a dividend withholding tax at between 10-15% dependent upon the proportion of the capital owned by the recipient. No customs duty is payable on the export of petroleum nor is customs duty payable on the import of material necessary for the conduct of petroleum operations. There is also a 19% value added tax. Oil is priced at market while gas is tied to a bundle pricing based in part on the import price and in part on the domestic price.

*Licensing Regime.* The Ministry of Industry and Resources has responsibility for petroleum policy and strategy. The National Agency for Mineral Resources ("NAMR") was set up in 1993 to administer and regulate petroleum operations. When licenses are to be made available, NAMR publishes a list of available blocks for concession in the Official Gazette. Foreign and Romanian companies must register their interest by a specified date and must submit applications by an application deadline. Applicants are required to prove their financial capacity, technical expertise and other requirements as stipulated in the tender call. The licensing rounds are competitive and the winning bid is based on a scoring system.

NAMR negotiates the terms of agreements granting the licenses with the winning licensee and the license agreement is then submitted to the government for its approval. The date of government approval is the effective date of the license. Blocks which fail to attract a prescribed level of bids are re-offered in a subsequent licensing round. NAMR may issue a prospecting permit or a petroleum concession. A prospecting permit is for the conduct of geological mapping, magnetometry, gravimetry, seismology, geochemistry, remote sensing and drilling of wildcat wells in order to determine the general geological conditions favoring petroleum accumulations. A petroleum concession provides exclusive rights to conduct petroleum exploration and production under a petroleum agreement.

**U.K. North Sea.** In September 2005, we were awarded two 23<sup>rd</sup> Round Promote Licenses, P.1325 and P.1326, covering a total of six offshore blocks (1,200 square kilometers) in the Auk Basin 150 kilometers east of the Scottish mainland. These blocks are in shallow water (150 feet) and contain a sub-salt Permian gas prospect at moderate depth with significant reserve potential. The official award of these licenses to us occurred in December 2005. During 2006, we purchased and reprocessed available seismic data and conducted other geological and geophysical studies to evaluate the licenses. We have completed its required work program for the initial two-year term of the license.

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The property is composed of a Mesozoic half-graben with underlying early syn-rift Permian evaporite seal, early syn-rift Permian reservoir and pre-rift Lower Carboniferous source rocks. Graben subsidence has formed the Carboniferous gas kitchen and set up an updip migration path from the source rocks into the overlying reservoir. A large scale prospect is formed by stratigraphic pinch out of the Permian reservoirs at western margin of the basin, with four-way dip closure on listric basin-bounding faults. This property is at less than 6,000 feet total vertical depth sub-sea.

The licenses are near the Central Area Transmission System (CATS) gas export pipeline. CATS is a 408 kilometer pipeline that links a riser platform adjacent to the North Everest development in the Central North Sea, with the gas processing terminal at Teesside. The pipeline has a nominal capacity of 1,707 million standard cubic feet per day. The CATS pipeline has been designed to allow access to new gas fields either at the riser platform or through one of six sub-sea tees along its length.

We are seeking to farmout our working interests in the property. Any company farming into the licenses would need to demonstrate its qualifications as an operator to the DTI by showing it has sufficient technical, environmental and financial capacity to execute an offshore work program. Once a commitment to drill a well on the license has been made, the term of the license can be extended into the third and fourth years.

*Commercial Terms.* In the U.K., there are no royalties. The U.K. corporate income tax rate is 30% of taxable income. Income from oil and gas activities is also subject to a supplemental charge of 20%. The amount and timing of income taxes payable depends on many factors including price, production and capital investment levels.

*Licensing Regime.* In 2003 in order to counteract the decrease in exploration expenditures, the DTI undertook substantial reforms of its licensing system and introduced the concept of the "Promote License." Promote Licenses are specifically designed to attract smaller exploration companies to the U.K. North Sea.

The general concept of the Promote License is that the licensee will be given two years after award to attract the technical, environmental and financial capacity to complete a firm agreed work program. This means that sometime in the third or fourth year of the license, a well must be drilled. The rental costs for a Promote License are one tenth that of a traditional license for the first two years. Accordingly, a license will expire after two years if the licensee has not made a firm commitment to the DTI to complete a work program including the drilling of a well. At the same time, the licensee must also satisfy the DTI of its technical, environmental and financial capacity to carry out the work program.

**Turkey.** In June 2006, we were awarded three onshore exploration licenses in southeastern Turkey. The three licenses together cover a total of 660 square kilometers (162,762 acres) and are for a term of four years. These licenses were awarded to us based on work programs for each of the respective areas. We are the operator and 100% working interest owner of the licenses. Following a commercial discovery, each exploration license can be converted to production leases which bear a 12.5% royalty, resulting in an 87.5% net revenue interest to us. The work programs will total about \$300,000 on each block over the next two years. Additional commitments to shoot seismic or drill wells will be contingent on the results from the initial work programs.

Two of the licenses (AR/TAT/X/4173 and AR/TAT/X/4174) are located near Bismil on the Tigris River. These licenses are adjacent to two producing oil fields (Molla and Karakilise). The Company's primary target is a Palaeozoic play located at a depth of approximately 9,843 feet. The work program involves reprocessing existing 2D seismic data and based on these results additional 2D seismic may be shot or a well drilled.

The third license (AR/TAT/X/4175) is located near Cizre about 60 kilometers from the Iraq border. The target is a deep sub-thrust play similar to the major Iraqi and Iranian Zagros fields to the south. We will conduct an initial work program of detailed fieldwork and geochemical analysis that is expected to lead to a 2D seismic program to define a drilling location. There is presently no 2D seismic over the area.

In August 2007, we were awarded three additional exploration licenses in southeastern Turkey. The three new licenses together cover a total of 1,354 square kilometers (334,618 acres) and are for a term of four years. These additional licenses will also involve a work program, including technical studies, reprocessing of data and contingent plans for drilling wells. We are the operator and 100% working interest owner of the licenses. Following a commercial discovery, each exploration license would be converted to a 20-year production lease which bears a 12.5% royalty.

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We began activities in Turkey in April 2005 when we entered into an exclusive option with Polmak Sondaj Sanayii A.S to acquire a 50% interest in five exploration licenses in southeastern Turkey near the border with Syria. We reprocessed 2D seismic over these five prospects which were identified on the licenses and analyzed other available data to confirm their potential. Our evaluation concluded that there was no drillable prospect with an acceptable risk profile. In February 2006, we elected not to exercise the option and withdrew from the project.

*Commercial Terms.* Turkey's fiscal regime is presently comprised of royalties and income tax. Royalties are at 12.5% and the corporate income tax is at a rate of 20%. The licenses have a four-year term but after the third year, a payment must be made to extend the license if no new well has been drilled prior to that date. The award of the licenses was based upon a work program that involves geological and geophysical work, seismic reprocessing and interpretation and contingent shooting of seismic and drilling of wells.

*Licensing Regime.* The licensing process in Turkey for oil and gas concessions occurs in three stages: Permit, License and Lease. Under a Permit, the government grants the non-exclusive right to conduct a geological investigation over an area. The size of the area and the term of the Permit are subject to the discretion of the General Directorate of Petroleum Affairs ("GDPA"), the agency responsible for the regulation of oil and gas activities under the Ministry of Energy and Natural Resources. A License grants exclusive rights over an area for the exploration for petroleum. A License has a term of four years and requires drilling activities in the third year but this obligation may be deferred into a future year by posting a guaranty. The License may be extended for up to two two-year extensions. No single company may own more than eight licenses within a district. Rentals are due annually based on the hectares under license. Once a discovery is made, the license holder applies to convert the area, not to exceed 25,000 hectares, to a Lease. Under a Lease, the lessee may produce oil and gas. The term of a Lease is for 20 years. Annual rentals are due based on the hectares under lease.

**Nigeria.** We originally acquired our interest in OML 109 in 1992. OML 109 is located approximately 15 kilometers offshore in water depths between 50 and 200 feet. We drilled both the discovery well and the first appraisal well in the Ejulebe field on OML 109 in 1994 and 1995. We then sought project financing to develop the field and install production facilities and entered into a risk service contract with Nexen (then known as CanOxy). Under a risk service contract with Nexen, Nexen paid all of the development capital, which totaled in excess of \$100 million, and drilled development wells, installed a production platform and pipeline and put the Ejulebe field into production in 1998. The Ejulebe field had produced about 11 Mmbbls or about 50% of the estimated 22 Mmbbls in place through 2005 when production ceased. Nexen was paid a service fee out of production revenues. An additional exploitation well drilled in the Ejulebe field in 2001 doubled the field production rate and as a result, we started receiving revenues from the Ejulebe field starting in the first quarter of 2002. We realized net cash distributions of \$12 million from Ejulebe crude sales through the first quarter of 2003. Additionally, an outstanding loan obligation from our Nigerian partner was paid off in 2002 resulting in receipt of an additional \$3.2 million by us. After production dropped below the volume required for us to receive net cash flow under the service fee agreement, we received only designated minimum payments (\$306,000 per year) in 2004 and until the sale in 2005.

In June 2005, we sold our Bahamian subsidiary which owned our 30% interest in OML 109. As part of the transaction, we received cash payments of \$780,000 and will receive deferred payments of up to a maximum of \$16 million based on the success of the future exploration and development on the concession. We paid transaction costs of \$220,000 (including legal, consulting and other deal-related costs) and, in addition, agreed to pay a bonus to our President for his efforts in completing this transaction equivalent to 3.75% of the deferred payments, if and when received, up to a maximum of \$600,000. Absent a new discovery on OML 109 by the new owner, the retained net profits interest will not yield any revenue to us.

In addition, out of the \$2.5 million reserved by us as an abandonment fund, \$1.76 million was deposited into an escrow fund to address any liabilities and claims relating to our operations in OML 109 over the past 10 years, and the balance of approximately \$720,000 was returned to us. The remaining escrow fund amount at December 31, 2006 is \$961,000. Pursuant to an agreement reached in 2007, \$406,000 of the remaining escrow amount has been allocated for payment of liabilities with respect to years 1998 through 2004. In connection with that agreement, \$415,000 was released to us in the first quarter of 2007, and \$240,000 remains in the escrow account. We believe the escrow fund provides adequate provision for the liabilities related to activities arising out of OML 109.

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**Property and Equipment**  
(In thousands of U.S. dollars)

	Cost	Accumulated Depreciation and Depletion	Net Book Value
<b>2006</b>			
Crude oil and natural gas properties			
United States	\$11,164	\$ 6,877	\$ 4,287
Romania	1,572	—	1,572
Furniture, fixtures and other assets	238	238	—
Balance, December 31, 2006	<u>\$12,974</u>	<u>\$ 7,115</u>	<u>\$ 5,859</u>
<b>2005</b>			
Crude oil and natural gas properties			
United States	\$11,308	\$ 5,521	\$ 5,787
Furniture, fixtures and other assets	238	212	26
Balance, December 31, 2005	<u>\$11,546</u>	<u>\$ 5,733</u>	<u>\$ 5,813</u>
<b>2004</b>			
Crude oil and natural gas properties			
United States	\$ 4,890	\$ 4,199	\$ 691
Nigeria	14,436	14,436	—
Furniture, fixtures and other assets	381	368	13
Balance, December 31, 2004	<u>\$19,707</u>	<u>\$ 19,003</u>	<u>\$ 704</u>

Property acquisitions:

In April 2005, we completed the purchase of the South Gillock property located in Texas. We paid \$3.0 million cash and issued 500,000 common shares and warrants exercisable for 500,000 common shares at \$1.00 per share on or before April 15, 2007. The warrants expired unexercised. The fair value of the warrants was determined using a Black-Scholes pricing model. A purchase equation is provided below:

<b>Consideration:</b>	
Cash	\$3,000,000
Common shares	350,000
Warrants	133,434
Acquisition costs	58,630
	<u>\$3,542,064</u>
<b>Assets acquired:</b>	
Property and equipment	\$3,892,064
Asset retirement obligations	(350,000)
	<u>\$3,542,064</u>

**Estimated Reserves of Crude Oil and Natural Gas.** As a Canadian issuer, we are required under Canadian law to comply with National Instrument 51-101 “Standards of Disclosure for Oil and Gas Activities” (NI 51-101) implemented by the members of the Canadian Securities Administrators in all of our reserves related disclosures. Under NI 51-101, proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. Reported proved reserves should target, under a specific set of economic conditions, at least a 90% probability that the quantities of oil and natural gas actually recovered will equal or exceed the estimated proved reserves.

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In the United States, registrants, including foreign private issuers like us, are required to disclose proved reserves using the standards contained in Rule 4-10(a) of the United States Securities and Exchange Commission's ("SEC") Regulation S-X. Proved reserves estimated and reported below pursuant to NI 51-101 also meet the definition of estimated proved reserves required to be disclosed under Rule 4-10(a) of Regulation S-X.

The crude oil and natural gas industry commonly applies a conversion factor to production and estimated proved reserve volumes of natural gas in order to determine an "all commodity equivalency" referred to as barrels of oil equivalent ("boe"). The conversion factor we have applied in this registration statement is the current convention used by many oil and gas companies, where six thousand cubic feet ("mcf") of natural gas is equal to one barrel ("bbl") of oil. The boe conversion ratio we use is based on an energy equivalency conversion method primarily applicable at the burner tip. It may not represent a value equivalency at the wellhead and may be misleading, particularly if used in isolation.

The reserve data set out in the summary table below is based on Netherland, Sewell & Associates, Inc.'s independent engineering evaluation of the estimated proved crude oil and natural gas reserves pertaining to our properties as of December 31, 2006, 2005 and 2004. All of our reserves are located in the United States. Oil is expressed in mmbbls, and natural gas is expressed in mmcf.

### Proved Reserves<sup>(1)</sup>

	Gross		Net	
	Oil	Natural Gas	Oil	Natural Gas
Proved Developed Producing	13.4	5.9	9.7	4.3
Proved Developed Non-Producing	20.8	16.4	15.4	12.3
	<b>34.2</b>	<b>22.3</b>	<b>25.1</b>	<b>16.6</b>
Proved Undeveloped	0.0	0.0	0.0	0.0
<b>2004 Total:</b>	<b>34.2</b>	<b>22.3</b>	<b>25.1</b>	<b>16.6</b>
Proved Developed Producing	39.3	1,094.7	31.1	847.9
Proved Developed Non-Producing	23.6	139.6	17.0	107.9
	<b>62.9</b>	<b>1,234.3</b>	<b>48.1</b>	<b>955.8</b>
Proved Undeveloped	0.0	505.3	0.0	391.3
<b>2005 Total:</b>	<b>62.9</b>	<b>1,739.6</b>	<b>48.1</b>	<b>1,347.1</b>
Proved Developed Producing	8.9	483.3	7.2	374.0
Proved Developed Non-Producing	0.0	139.3	0.0	107.8
	<b>8.9</b>	<b>622.6</b>	<b>7.2</b>	<b>481.8</b>
Proved Undeveloped	0.0	0.0	0.0	0.0
<b>2006 Total:</b>	<b>8.9</b>	<b>622.6</b>	<b>7.2</b>	<b>481.8</b>

#### Notes:

- (1) "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (2) "Gross Reserves" are our working interest (operating or non-operating) share before deducting of royalties and without including our royalty interests. "Net Reserves" are our working interest (operating or non-operating) share after deduction of royalty obligations, plus our royalty interests in reserves.
- (3) "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
- (4) "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

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- (5) “Developed Non-Producing” reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
- (6) “Undeveloped” reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g. when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.
- (7) “Oil” volumes include condensate (light oil) and medium crude oil.

Our proved reserves decreased significantly at December 31, 2006 as compared to 2005. The decline in proved reserves resulted in a material increase in depreciation, depletion and accretion expense for the year as well as a \$3.1 million impairment charge under Canadian GAAP in the fourth quarter to our oil and gas producing properties in the U.S. cost center. The impairment charge was largely due to lower reserves resulting from the sale of our non-operated interest in the Bayou Couba property, the failure to add substantial reserves at the Jarvis Dome property, significantly lower gas prices used to calculate the value of year-end 2006 reserves compared to 2005 and a significant increase in asset retirement cost estimates included in property and equipment for the South Gillock property. The lower anticipated production may result in reduced revenue in future periods as compared to prior years. The potential decrease in revenue could result in decreased cash flow from operations further increasing the need for outside sources of capital for workovers and drilling.

The following table sets forth the number of wells in which we held a working interest as of December 31, 2006:

	Oil		Natural Gas	
	Gross <sup>(1)</sup>	Net <sup>(1)</sup>	Gross <sup>(1)</sup>	Net <sup>(1)</sup>
<b>Texas (onshore)</b>				
Producing	2	2	2	2
Non-producing <sup>(2)</sup>	57	57	0	0

- (1) “Gross Wells” are the wells in which we hold a working interest (operating or non-operating). “Net Wells” are the Gross Wells multiplied by our working interest percentage (operating or non-operating).
- (2) All non-producing wells are presented as oil wells.

The following table sets forth our net production of oil (in bbls) and natural gas (in mcf), after payment of royalties, as of December 31, 2006, 2005 and 2004:

Year	Net Production	
	Oil <sup>(1)</sup>	Natural Gas
2004	15,884	41,317
2005	16,903	93,661
2006	8,975	129,867

- (1) “Oil” volumes include condensate (light oil) and medium crude oil.

With respect to the properties in which we, as 100% operator, are responsible for future abandonment and reclamation costs, we have taken the total number of wells which we own (61) and, using third party estimated costs, have estimated the undiscounted cost (net of salvage value) to be \$2.4 million and the cost discounted at 7% to be \$1.9 million. We plan to begin plugging and abandoning two wells at our South Gillock property beginning in the fourth quarter of 2007.

## **Item 4A. Unresolved Staff Comments**

Not applicable

**Item 5. Operating and Financial Review and Prospects**

**A. Operating Results**

The following discussion for the three fiscal years ended December 31, 2006 and the comparative six month periods ended June 30, 2007 and 2006 should be read in conjunction with our consolidated financial statements and notes thereto.

**Summary**

Consolidated net revenues for the year ended December 31, 2006 were \$1.6 million, which represents an increase of 14% from the \$1.4 million reported for 2005. The increase in revenue is primarily due to higher oil and gas sales from the United States. Consolidated revenues for the year ended December 31, 2005 of \$1.4 million represented a decrease of \$3.7 million or 72% from the \$5.1 reported for 2004. The decrease in revenue was primarily due to our cessation of production of crude oil in OML 109. Consolidated net revenues for the six months ended June 30, 2007 of \$342,000 represented a substantial decrease from the \$1.0 million reported for the six months ended June 30, 2006. This decrease is primarily due to the sale of our Bayou Couba property in December 2006 and declining production at our South Gillock property. The consolidated net loss for 2006 was \$9.4 million or \$0.25 loss per share (basic), compared to consolidated net loss of \$3.8 million or \$0.11 loss per share (basic) for fiscal 2005 and \$5.2 million or \$0.17 loss per share (basic) in 2004. The significant increase in the loss for 2006 as compared to 2005 comes from the expansion of foreign activities where \$2.3 million was expensed towards the pre-acquisition, reconnaissance and evaluation of opportunities in Morocco, Romania, Turkey and the U.K. North Sea, a \$400,000 loss on the sale of a debenture owned by us in connection with the Bayou Couba property disposition and an impairment of \$3.1 million. The consolidated net loss for the six months ended June 30, 2007 was \$3.1 million or \$0.07 loss per share (basic), compared to consolidated net loss of \$2.6 million or \$0.07 per share (basic) for the six months ended June 30, 2006. The loss is primarily composed of \$1.3 million relating to international expenditures and general and administrative expenses of \$1.4 million.

We incurred \$4.7 million in capital expenditures in 2006 compared to \$4.8 million in 2005 and \$1.7 million in 2004. The increase in capital expenditures in 2005 is due to the purchase of the South Gillock property in April 2005. At December 31, 2006, we had working capital of \$2.2 million and significant capital expenditures projected for 2007. In the first quarter of 2007, we drilled and logged an exploratory well at the South Gillock property in Galveston County, Texas. The expenditures incurred in connection with this well, which we completed in June 2007, have had a significant adverse impact on our working capital. We are evaluating several options for additional sources of funding for 2007 to continue to develop our portfolio of properties, including farm-in arrangements at each of our projects, the sale of certain non-core properties, and one or more equity financings. We had 42,556,939 common shares outstanding at year-end 2006, compared to 37,659,189 at year-end 2005 and 31,852,241 at year-end 2004.

**U.S. Operations**

*Revenue and Production.* We recognized net oil and gas sales of \$1.6 million for 2006 representing a 14% increase from 2005 sales of \$1.4 million which is a result of higher sales volumes partially offset by slightly lower commodity prices. Net oil and gas sales for 2004 were \$744,000. During the year, we had production from two operated fields in Texas (South Gillock and Jarvis Dome) as well as from our non-operated interest in Bayou Couba, Louisiana (first three quarters). Production for 2006 was impacted by continued declines at Bayou Couba as well as at South Gillock where the SGU #83 gas well declined more rapidly than anticipated and then had to be shut-in due to casing failure in December 2006. We produced 36,300 net barrels of oil equivalent (Boe) in 2006 compared to 30,962 Boe for 2005 and 21,600 Boe for 2004. 2005 revenue represented a 89% increase from 2004 sales of \$744,000 from production in the U.S. as a result of the South Gillock property acquisition and higher commodity prices. At year-end 2006, our gross daily production was 392 mcf of gas and 25 barrels of oil compared to 887 mcf and 20 barrels, respectively, at year-end 2005. The reduction in daily production at year-end 2006 relates to the loss of the SGU #83 well and the sale of the Bayou Couba property.

We recognized net crude oil and natural gas sales of \$342,000 for the first six months of 2007 representing 7,645 Boe (\$57.26 per bbl of oil and \$5.97 per mcf of gas) from field production in the United States. This U.S. revenue represented a substantial decrease from sales of \$1.0 million during the same period in 2006. The decrease is primarily the result of reduced production from the South Gillock property when the SGU #83 well

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had to be shut-in at the end of 2006 due to casing problems as well as the sale of our interests in the Bayou Couba property in the fourth quarter 2006.

*Operating and DDA Expenses.* Lease operating expenses decreased 7% to \$1.8 million in 2006 as compared to 2005. We continued to experience higher field costs and workover expenses at South Gillock related to the age and condition of the field as well as costs associated with workover and completion of the Brittani well at Jarvis Dome. Fiscal 2005 lease operating expenses declined 56% from \$4.4 million in 2004, due to the cessation of activities in OML 109. Depreciation, depletion and accretion (“DDA”) increased to \$1.5 million for 2006 as compared \$606,000 for 2005 (\$718,000 - 2004). This increase in DDA relates to lower reserves due to a substantially lower gas price at year end 2006 (\$5.40 MMBtu) compared to year-end 2005 (\$10.08 MMBtu). DDA decreased 16% for 2005 and represented a DDA rate per net equivalent barrel of \$19.86, largely as a result of larger reserve base and the impact of the South Gillock acquisition as well as an impairment of \$1.2 million recorded in 2004 relating to a ceiling test associated with our U.S. cost center. DDA related to U.S. production decreased to \$351,000 for the first six months of 2007 as compared with \$549,000 during the same period in 2006, due primarily to the reduction in production in the first quarter 2007.

Lease operating expenses in the first six months of 2007 decreased to \$482,000 from \$1.0 million as reported for the first six months of 2006. The difference is largely due to nonrecurring workover costs at South Gillock of \$338,000 incurred in the first quarter of 2006. Approximately \$170,000 of the lease operating expenses in the first quarter 2007 relates to changing out pumping equipment at one of the South Gillock wells. General and administrative costs of \$1.4 million in the first six months of 2007 increased compared to \$1.5 million for same period in 2006, primarily because of charges of \$295,000 for stock based compensation.

*Exploration.* In 2006 at South Gillock, we incurred costs of \$220,000 towards the preparation of drilling the SGU #96 well. Subsequent to year-end 2006, we spudded the SGU #96 well which was drilled to a total measured depth of 9,860 feet and tested the principal producing zone (Big Gas Sand) as well as other deeper zones within the Frio formation. On June 29, 2007, we announced that the well had been completed in the Big Gas Sand formation and was producing approximately 1,000 Mcf per day. We acquired the South Gillock property in April 2005 for \$3.0 million cash, 500,000 common shares and warrants exercisable for 500,000 common shares at an exercise price of \$1.00 per share on or before April 15, 2007. All of these warrants expired unexercised.

In the first six months of 2007, we drilled the SGU #96 well on our South Gillock property and capitalized approximately \$3.8 million (2006 - \$300,000) in costs associated with this project. In addition, we capitalized approximately \$140,000 of costs at our Oswego property in Dewey County, Oklahoma.

During 2006 we participated in three wells in Oklahoma and Texas. At Jarvis Dome in East Texas, we acquired a 100% working interest in 170 acres with two inactive wells, acquired an additional 630 acres, completed one work over (Brittani well) and drilled an exploratory horizontal well (Lasiter well). We incurred costs of \$1.9 million towards these activities in Jarvis Dome. The Brittani well was initially put on production at 12 bbl/day but declined to 5 bbl/day at year end. The Lasiter well targeted a fractured limestone (Pecan Gap) which was projected to produce 1 to 2 mmcf/day. However, the Lasiter well was producing 130 mcf/day at year end and has now declined to 60 mcf/day; accordingly, we have considered the costs of the Lasiter well in the ceiling test. We incurred costs of \$710,000 for our 20% participation in the first well drilled on the Oswego property in Dewey County, Oklahoma. That well is being completed as of September 15, 2007.

An impairment of \$3.1 million on U.S. properties was recorded for 2006. This impairment results from the write-off of Jarvis Dome (\$1.7 million), the write-down relating to the sale of the Bayou Couba property, and a reduction of reserves due primarily to a 46% lower gas price used to calculate the value of year-end 2006 reserves compared to 2005.

*Bayou Couba Sale.* In December 2006, we sold for \$2.0 million our non-operated interest in the Bayou Couba, Louisiana property to Dune Energy Inc. (Dune). Concurrent with this property sale, we also sold to Dune the debenture we held in American Natural Energy Corporation (ANEC). We recorded an impairment of our interests and a loss of \$400,000 on the sale of our ANEC debenture.

### ***International Operations***

We continued to evaluate and expand our initiatives in Morocco, Romania, Turkey and the U.K. North Sea during 2006. Approximately, \$2.3 million of costs was incurred and expensed from the pre-acquisition,

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reconnaissance, evaluation and development of our international oil and gas activities including technical, professional and administrative costs. In the first six months of 2007, we spent \$1.3 million pursuing our international prospects. The following table outlines these expenditures by country for 2006, 2005 and 2004 and the six months ended June 30, 2007 and 2006:

(In thousands of U.S. dollars)	Six Months Ended June 30,		Year Ended December 31,		
	2007	2006	2006	2005	2004
Morocco - Reconnaissance License and Exploration Permit	\$ 289	\$ 459	\$ 874	\$ 75	\$ —
U.K. North Sea - Two Exploration Licenses	133	111	553	—	—
Romania - Three Production Licenses	664	173	605	—	—
Turkey - Three Exploration Licenses	150	149	222	96	—
Nigeria	—	—	—	—	4,902
Other Unallocated	106	18	25	269	—
Total	<u>\$ 1,342</u>	<u>\$ 910</u>	<u>\$2,279</u>	<u>\$440</u>	<u>\$4,902</u>

In addition to these costs, we also capitalized \$1.6 million of expenditures related to the seismic surveys completed at the end of the year in Romania. These surveys included a 3D seismic survey at the Izvoru license and 2D seismic surveys at the Vanatori and Marsa licenses. The work programs for each of the licenses must be completed by September 2010. The Romanian programs will include re-entering up to nine wells on the Izvoru license and drilling one or more new wells on each license. The estimated cost to complete these programs is \$7.4 million.

The most significant international development for 2006 was the signing of the Tselfat exploration permit in May 2006 covering 222,345 acres in northern Morocco. Tselfat has three former producing fields with existing shallow potential as well as deeper exploration potential. We are reviewing all the existing well and seismic data on the permit, and will likely reprocess some of the existing 2D seismic over the license area. In addition, we have committed to shooting a 3D survey over two of the former oil fields in the license area that will be followed by the drilling of an exploratory well. As a condition of the Tselfat permit, we posted \$3.0 million in certificates of deposit to guarantee the Tselfat work program. In August 2007 we reached an agreement to farmout 50% of our interest in the Tselfat exploration permit to Sphere. In exchange for an option to acquire 50% of our interest in the Tselfat permit, Sphere will fund the costs to acquire a 110 square kilometers 3D seismic survey to be shot over the Haricha field and northern portion of the Bou Draa field in early 2008 and will also fund the cost of additional geological studies. It is estimated the 3D survey and the studies will cost approximately \$4.5 million over the next year. Upon its exercise of the option, Sphere will (i) fund the drilling and testing of an exploratory well and (ii) replace our bank guarantee deposited with the Moroccan government.

We have fulfilled all of our required commitments for the initial two years with respect to the U.K. North Sea property and are now actively seeking a farmout or partner for the property. By December 2007, we must commit to drill a well by the end of the fourth year of the license if we intend to retain our interests in the property.

In Turkey, we have six exploration licenses and plan to spend a total of \$1.1 million on work programs during the terms of the licenses, three of which extend through June 2009 and three of which extend through June 2010. We spent \$115,000 toward these work programs in 2006. We are actively seeking partners to assist in the development of the Turkey licenses.

We have been actively marketing our international portfolio with the intent of bringing partners into the development of our projects and the completion of our work commitments.

During 2004 we received payments of \$306,000 from our services contractor in OML 109. We also received \$75,000 in payments from our services contractor in 2005 prior to the sale of OML 109 in June 2005. Gross sales of crude oil in OML 109 for 2004 were \$4.9 million representing 240,118 barrels (\$33.84 per equivalent barrel). DDA related to OML 109 property and equipment decreased to nil in 2004 since all capitalized costs related to OML 109 were fully depleted at December 31, 2003. With no reserves attributed to OML 109 at December 31, 2004, net property costs related to OML 109 were reduced to zero through depletion.

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### ***G&A and Other Expenses***

General and administrative costs of \$2.4 million in 2006 were approximately the same as 2005. The increase from \$1.8 million in 2004 is due to increased staff and consultants related to support of the South Gillock purchases and expanded business development activities. Other costs include a foreign exchange loss of \$59,000 and \$260,000 of stock-based compensation expense.

General and administrative costs of \$899,000 in the first quarter 2007 increased compared to \$602,000 for same quarter of 2006, primarily because of charges of \$246,000 for stock based compensation.

### ***Contingency***

In conjunction with the sale of our Nigerian subsidiaries effective June 20, 2005, we deposited \$1.76 million into an escrow account to address claims relating to prior operations in OML 109. The balance of the escrow fund at December 31, 2006 was \$961,000. Pursuant to an agreement reached in 2007, \$406,000 of the remaining escrow amount has been allocated for payment of liabilities with respect to years 1998 through 2004. In connection with that agreement, \$415,000 was released to us in April 2007, and \$240,000 remains in the escrow account. The remaining potential liability to us is for taxes owed for the period January through June 2005, and we expect the remaining escrow amount to be sufficient to cover any potential liabilities.

### **B. Liquidity and Capital Resources**

As of December 31, 2006, we had cash and short-term investments of \$4.7 million and working capital of \$2.2 million compared to \$9.1 million and \$7.6 million, respectively, at December 31, 2005. We had cash and short-term investments of \$11.4 million and working capital of \$10.8 million at December 31, 2004. In 2007, we drilled and completed the SGU #96 exploratory well at our South Gillock property in Galveston County, Texas. We estimate the well has cost \$4.0 million to date.

We have work program commitments of \$3.0 million under our Tselfat exploration permit in Morocco that are supported by fully-funded bank guarantees. The bank guarantees are reduced periodically based on work performed. In the event we fail to perform the required work commitments, the remaining amount of the bank guarantee would be forfeited. The Tselfat work commitments are due to be completed by March 2009, and the Guercif work commitments have been completed.

We hold substantially all of our cash and short-term investments in U.S. dollars. Cash and cash equivalents held in local currencies (Canadian dollar, British pound sterling, Turkish lira, Moroccan dirham and Romanian lei) totaled approximately \$200,000 at December 31, 2006, June 30, 2006 and June 30, 2007. We held \$2.0 million and \$100,000 in Canadian dollars at December 31, 2005 and December 31, 2004, respectively. We convert from U.S. dollars to other currencies as needed. Our treasury policy regarding liquidity management, including funding for capital expenditures and foreign exchange, are approved by our Chief Executive Officer and administered by our Chief Financial Officer.

### ***Changes in cash, short-term investments and working capital***

The decrease in cash and cash equivalents for 2006 was \$2.9 million compared to the decrease of \$2.1 million for fiscal 2005 and an increase in cash and cash equivalents of \$5.0 million in 2004. The significant decrease in cash during 2006 was primarily due to cash used in operations of \$3.3 million, an increase in restricted cash for the Tselfat work commitment guarantee of \$3.0 million and the investment in oil and gas properties of \$4.7 million in the U.S. and Romania. We received proceeds from the redemption of a short-term investment of \$1.5 million plus accrued interest in March 2006 when the investment matured. We also received \$2.0 million in December 2006 for proceeds from the sale of our non-operated interest in the Bayou Couba property and the debenture we held in ANEC. Working capital decreased approximately \$5.3 million in 2006 as a result of a decrease in cash and short-term investment of \$4.4 million and an increase in payables of approximately \$1.0 million.

In 2005 cash and cash equivalents decreased due to cash used in operations of \$1.8 million and the investment in oil and gas properties of \$4.8 million in the U.S., including \$3.0 million for purchase of the South Gillock property in April 2005. Working capital decreased approximately \$3.3 million in 2005 mostly as a result of a decrease in cash and short-term investments of \$2.3 million, and an increase in payables of \$600,000.

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In January 2004 we raised net proceeds of \$7.5 million from the private placement of stock and warrants. The increase in cash and cash equivalents in 2004 of \$5.0 million resulted from the equity issuance less cash used in operation of approximately \$955,000 and investment in U.S. oil and gas properties of \$1.7 million.

As of June 30, 2007, we had cash of \$624,000, \$3.0 million in current debt and a working capital deficit of \$3.2 million compared to cash and short-term investments of \$3.0 million, no debt and positive working capital of \$1.5 million, at June 30, 2006. The decrease in cash and working capital in the first six months of 2007 is primarily related to \$3.8 million in cash expenditures for the SGU #96 well and \$1.3 million in technical, professional and administrative costs for pre-acquisition, reconnaissance and evaluation of our international oil and gas activities.

In April 2007, we entered into a U.S. \$4.0 million short-term standby bridge loan from Quest Capital Corp., a Canadian bank ("Quest"). We mortgaged certain of our assets, including the South Gillock property, and pledged 100% of the common stock of our wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. At closing, we paid Quest a loan fee totaling 132,353 common shares at a deemed price of \$0.68 per share. In addition, we paid Quest an amount equal to 5% of the principal drawn down, payable in our common shares using a formula based on a discount to the five-day volume weighted average trading price. We drew down \$1.0 million on the loan on April 16, 2007 and issued 64,766 common shares to Quest at a deemed issue price of \$0.77 per share. We drew down \$1.5 million on the loan on May 9, 2007 and issued 102,174 common shares to Quest at a deemed issue price of \$0.73 per share. We drew down \$500,000 on the loan on June 6, 2007 and issued 65,074 common shares to Quest at a deemed issue price of \$0.38 per share. We drew down \$1.0 million on the loan on August 10, 2007 and issued 139,456 common shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

We do not have sufficient funds to continue operations beyond October 2007. We will require significant additional funding to continue to develop our properties. Accordingly, we will continue to consider other debt or equity financing to meet our obligations. We will also consider sales and farmouts of our properties to raise capital. The development of our properties is also dependent on finding and developing additional oil and gas reserves, oil and gas prices and the availability of additional capital to continue project development.

We completed a private placement in December 2006 whereby we issued 4,500,000 Units at \$0.85 per Unit for gross proceeds of \$3.83 million. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.05 through December 4, 2008. The proceeds were used for U.S. exploration and development activities and general corporate purposes.

We completed a private placement in November 2005 whereby we issued 5,000,000 Units at \$0.85 per Unit for gross proceeds of \$4.25 million. Each Unit consisted of one common share and one half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.05 through November 17, 2007. The proceeds were used for U.S. and international exploration and development activities and general corporate purposes.

Portions of the December 2006 and November 2005 private placements were conducted in the United States. Neither transaction described above involved any public offering, and we believe that the transactions were exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof or Regulation D promulgated thereunder. The investors represented their intentions to acquire the securities for investment purposes only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the instruments issued to them. The investors had adequate access, through their relationships with us or our agents, to information about us. The April 2007 loan transaction with Quest was conducted wholly within Canada in compliance with Canadian securities laws.

### ***Asset Retirement Obligations***

We have estimated undiscounted asset retirement obligations of \$2.4 million as of June 30, 2007 for the abandonment and reclamation of oil and gas properties in the United States. This obligation is unfunded. The majority of the expenditures are not anticipated to begin until 2010. Our ability to fulfill our future asset retirement obligations will depend on our ability to raise additional capital.

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[Table of Contents](#)**C. Research and Development, Patents and Licenses, etc.**

We have no material research and development programs or policies.

**D. Trend Information**

There are a number of trends in the crude oil and natural gas industry that are shaping the near future of the business. Crude oil prices are dependent upon the world economy and the global supply-demand balance. Demand for crude oil continues to grow, particularly in developing countries. The current environment of geopolitical unrest has increased prices above those supported by current supply-demand balances based on perceived risk. While pricing in the future may more accurately reflect supply-demand fundamentals, it would appear that the current tight supply environment is highly sensitive to political and terrorist risks as evidenced by the risk premium in the current price structure. The magnitude of this risk premium changes over time. Natural gas prices have been somewhat volatile over the past year, particularly due to shut-ins and damages to production and refining facilities in the Gulf of Mexico as a result of adverse weather conditions. With the supply and demand balance for natural gas being tight, the market has experienced volatility in pricing due to a number of factors, including weather, drilling activity, declines, storage levels, fuel switching and demand. In addition, in the next few years liquid natural gas terminals are anticipated to add natural gas supplies to the United States, which may result in a moderation of natural gas prices. It appears that prices of crude oil and natural gas no longer rise and fall in tandem. Any substantial disruptive event could cause crude oil or natural gas prices to spike. Similarly, resolution of certain geopolitical tensions, such as the crisis with Iran concerning the development of nuclear weapons capability, could cause such prices to moderate.

**E. Off-Balance Sheet Arrangements**

As at December 31, 2006, we had no off-balance sheet arrangements.

**F. Contractual Obligations**

The following table sets forth our contractual obligations as at December 31, 2006.

**Payments Due By Period**  
**(In thousands of U.S. dollars)**

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating Leases	\$336	\$ 80	\$ 164	\$ 92	—

We have a long-term lease for office space in the U.S. and office lease commitments of less than one year for offices in Romania, Turkey and Morocco.

We have work program commitments of \$3.0 million under our Tselfat exploration permit in Morocco that is supported by a fully-funded bank guarantee. The bank guarantee is reduced periodically based on work performed. In the event we fail to perform the required work commitments, the remaining amount of the bank guarantee would be forfeited. We also hold six exploration licenses in Turkey, two exploration licenses in the U.K. North Sea and three production licenses in Romania. Under each of these licenses, we have a work program but have not posted any financial guarantee. If we fail to perform the work program under any of these licenses, we would risk forfeiture of that license.

We have estimated undiscounted asset retirement obligations of \$2.4 million as of June 30, 2007 for the abandonment and reclamation of oil and gas properties in the U.S. This obligation is unfunded. The majority of the expenditures are not anticipated to begin until 2010.

**G. Forward Looking Statements**

Certain statements in this registration statement, including those appearing under this Item 5, constitute “forward-looking statements” within the meaning of applicable U.S. and Canadian securities legislation. Additionally, forward looking statements may be made orally or in press releases, conferences, reports, on our website or otherwise, in the future, by us on our behalf. Such statements are generally identifiable by the terminology used such as “plans”, “expects”, “estimates”, “budgets”, “intends”, “anticipates”, “believes”, “projects”, “indicates”, “targets”, “objective”, “could”, “may” or other similar words.

By their very nature, forward-looking statements require us to make assumptions that may not materialize or that may not be accurate. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, levels of activity and achievements to differ materially from

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those expressed or implied by such statements. Such factors include, among others: market prices for natural gas, natural gas liquids and oil products; the ability to produce and transport natural gas, natural gas liquids and oil; the results of exploration and development drilling and related activities; economic conditions in the countries and provinces in which we carry on business, especially economic slowdowns; actions by governmental authorities including increases in taxes, changes in environmental and other regulations, and renegotiations of contracts; political uncertainty, including actions by insurgent groups or other conflict; the negotiation and closing of material contracts; and the other factors discussed in Item 3 Key Information—"Risk Factors", and in other documents that we file with or furnish to the United States Securities and Exchange Commission and Canadian securities regulatory authorities. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors; our course of action would depend upon our assessment of the future considering all information then available. In that regard, any statements as to future natural gas, or oil production levels; capital expenditures; the allocation of capital expenditures to exploration and development activities; sources of funding for our capital program; drilling of new wells; demand for natural gas and oil products; expenditures and allowances relating to environmental matters; dates by which certain areas will be developed or will come on-stream; expected finding and development costs; future production rates; ultimate recoverability of reserves; dates by which transactions are expected to close; cash flows; uses of cash flows; collectibility of receivables; availability of trade credit; expected operating costs; changes in any of the foregoing and other statements using forward-looking terminology are forward-looking statements, and there can be no assurance that the expectations conveyed by such forward-looking statements will, in fact, be realized.

Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity, achievements or financial condition.

Readers should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning us, including factors that potentially could materially affect our financial results, may emerge from time to time. We do not intend to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

## **Item 6. Directors, Senior Management and Employees**

### **A. Directors and Senior Management**

<b><u>Name</u></b>	<b><u>Position Held</u></b>	<b><u>Age</u></b>
Michael D. Winn	Director	45
Brian B. Bayley	Director	54
Alan C. Moon	Director	61
Scott C. Larsen	President and Chief Executive Officer, Director	55
Hilda Kouvelis	Vice President and Chief Financial Officer	43
Dr. David Campbell	International Exploration Manager	54
Dr. Weldon Beauchamp	Consulting Geophysicist/Geologist	47
Jeffrey S. Mecom	Vice President and Secretary	41

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**Michael D. Winn** has served as a director since 2004. He has been the President of Terrasearch Inc., a consulting company that provides analysis on mining and energy companies, since he formed that company in 1997. Prior to that, Mr. Winn spent four years as an analyst for a Southern California based brokerage firm where he was responsible for the evaluation of emerging oil and gas and mining companies. Mr. Winn has worked in the oil and gas industry since 1983 and the mining industry since 1992, and is also a director of several companies that are involved in mineral exploration in Canada, Latin America, Europe and Africa. Mr. Winn has completed graduate course work in accounting and finance and received a B.S. degree in geology from the University of Southern California. Mr. Winn is currently a director of the following public companies:

Company	Exchange
Alexco Resource Corp	TSX
Eurasian Minerals Inc.	TSX Venture Exchange
General Minerals Corp.	TSX
Lake Shore Gold Corp.	TSX Venture Exchange
Mena Resources Inc.	TSX Venture Exchange
Quest Capital Corp.	TSX
Reservoir Capital Corp.	TSX Venture Exchange
Sanu Resources Ltd.	TSX Venture Exchange

**Brian B. Bayley** has served as a director since 2001. Since 2003, Mr. Bayley has served as the Chief Executive Officer and President of Quest Capital Corp, a publicly traded merchant banking organization that focuses on providing financial services, specifically bridge loans, to small and mid-cap companies in North America. Prior to that, he served as Chief Executive Officer of Quest Investment Corporation, a publicly listed merchant bank based in Vancouver. He was also the co-founder of Quest Ventures Ltd., a privately held merchant bank based in Vancouver which also specialized in bridge loans. Prior to Quest Ventures, Mr. Bayley was President and CEO of Quest Oil & Gas, which was sold to Enermark Income Fund in 1997. Mr. Bayley is currently a director of the following public companies:

Company	Exchange
American Natural Energy Corp.	TSX Venture Exchange
Arapaho Capital Corp.	TSX Venture Exchange
Cypress Hills Resource Corp.	TSX Venture Exchange
Esperanza Silver Corp.	TSX Venture Exchange
Eurasian Minerals Inc.	TSX Venture Exchange
Greystar Resources Ltd.	TSX
Groundstar Resources Limited	TSX Venture Exchange
Kirkland Lake Gold Inc.	TSX
Midway Gold Corp.	TSX Venture Exchange
PetroFalcon Corp.	TSX
Pretium Capital Corp.	TSX Venture Exchange
Quest Capital Corp.	TSX
Rockhaven Resources Ltd.	CNQ
Sanu Resources Ltd.	TSX Venture Exchange
Torque Energy Inc.	TSX Venture Exchange

**Alan C. Moon** has served as a director since 2004. Mr. Moon has been the President of Crescent Enterprises Inc., a private Calgary-based consulting firm, since he formed that company in 1997. Prior to that, Mr. Moon was President and COO of TransAlta Energy Corporation. The company was an international independent electric power generation and distribution company with approximately \$1 billion in assets and operated in Ontario, New Zealand, Australia, South America, and the United States. Mr. Moon is currently a director of the following public companies:

Company	Exchange
Avenir Diversified Income Trust	TSX
Superior Diamonds Inc.	TSX Venture Exchange
Lake Shore Gold Corp.	TSX Venture Exchange
Maxy Gold Corp.	TSX Venture Exchange
Envest Diversified Income Trust	TSX

Mr. Winn, Mr. Bayley and Mr. Moon estimate that they devote 20%, 5% and 5% of their time, respectively, to the business and affairs of TransAtlantic.

**Scott C. Larsen** has served as our President and Chief Executive Officer since March 2004. He was appointed director in 2005. He previously served as our Vice President - Operations since July 2002 and has been involved in our international activities since their inception in 1994. An attorney by training with over 25 years experience in the oil and gas industry, Mr. Larsen previously served as general counsel for Humble Exploration Company, Inc., a Dallas, Texas independent exploration company, spent several years as a partner in Vineyard, Drake and Miller, a business litigation law firm in Dallas, Texas and served as general counsel for

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Summit Partners Management Co., a venture capital and management company based in Dallas, Texas. He received a B.A. degree in biology from Rutgers College and a J.D. degree from Rutgers School of Law.

**Hilda D. Kouvelis** has served as our Chief Financial Officer since January 2007. She served as our Controller since joining us in June 2005. Prior to that, Ms. Kouvelis served as Controller for Ascent Energy, Inc. from 2001 to 2004. Ms. Kouvelis has more than 20 years of industry experience, including 18 years with FINA, Inc., where she held various positions in finance and accounting, including Controller and Treasurer. Ms. Kouvelis served as Financial Controller for international operations at the headquarters of PetroFina, S.A. in Brussels, Belgium from 1998 through 2000. She holds an M.B.A. degree in corporate finance and investment analysis from the University of Dallas and a B.B.A. degree in accounting from Angelo State University. Ms. Kouvelis is a licensed Certified Public Accountant.

**Dr. David Campbell** currently serves as our International Exploration Manager. He received a B.Sc. degree in geology from St. Andrews University and a Ph.D. degree in geology at Glasgow University. After university he joined Esso Expro UK as a seismic interpreter and later spent the majority of his professional career with ARCO both in the UK and overseas. He was North Sea Chief Geophysicist for ARCO British Limited, Geophysical Research Manager for ARCO Exploration and Production Technology Company, and Middle East Exploration Manager for ARCO International Oil and Gas Company. Following his retirement from ARCO in 2000, Dr Campbell became an officer or a director in a number of energy-related companies, including Balli Resources Limited, Balli Naft CFZ and VND Energy Limited.

**Dr. Weldon Beauchamp** currently serves as our Consulting Geophysicist/Geologist. He received a B.A. degree in geology from New England College, New Hampshire, and an M.S. degree in geology from Oklahoma State University and a Ph.D. in geophysics from Cornell University. He worked for Sun Exploration and Production Company in the mid-continent region, prior to joining Sun International Exploration and Production Company in Dallas, Texas and London, England. He served as a new venture exploration geologist in the North Sea, Africa, and the Middle East regions. Upon leaving Sun, he completed his doctoral work, which focused on the tectonic evolution of the Atlas Mountains in North Africa. Dr. Beauchamp then joined ARCO in Plano, Texas, where he worked as a geophysicist in New Ventures - Middle East. Since leaving ARCO in 2000, he has consulted for Triton Energy in Equatorial Guinea, for Hunt Oil in offshore Togo as well as for TransAtlantic in Nigeria and Morocco.

**Jeffrey S. Mecom** has served as our Secretary since May 2006. He also serves as Vice President—Legal of our TransAtlantic Petroleum (USA) Corp. subsidiary. Prior to joining us, Mr. Mecom served as Vice President, Legal and Corporate Secretary with Aleris International, Inc., where he was employed from 1995 until 2005. He received his B.A. degree in economics from the University of Texas at Austin and his J.D. degree from the University of Texas School of Law.

None of our directors, officers or employees has any family relationship with one another. To the best of our knowledge, there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

## B. Compensation

The following table sets forth all annual and long-term compensation for services in all capacities in fiscal 2006 for our directors, chief executive officer and chief financial officer.

	Salary	Bonus	Other Annual Compensation	Options Granted		
				Number	Exercise Price	Expiry Date
Scott C. Larsen President, Chief Executive Officer and Director	\$240,000	\$ -0-	\$ -0-	70,000	\$ 1.10	April 5, 2011
Christopher H. Lloyd <sup>(1)</sup> Chief Financial Officer	\$144,000	\$ -0-	\$ -0-	-0-	—	—
Michael D. Winn Director	-0-	-0-	\$ 60,000 <sup>(2)</sup>	-0-	—	—
Brian B. Bayley Director	-0-	-0-	\$ 12,000 <sup>(2)</sup>	-0-	—	—
Alan C. Moon Director	-0-	-0-	\$ 12,000 <sup>(2)</sup>	-0-	—	—

- (1) Mr. Lloyd was paid a referral fee of \$15,000 by Quest Capital Corp. with respect to a syndicated loan opportunity he presented to Quest in March 2005; we participated in the syndication and the loan has now been repaid. Mr. Lloyd's employment terminated in January 2007.

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- (2) Represents director fees paid in accordance with resolutions passed by our Compensation Committee. In 2006, none of the non-executive directors were granted stock options. However, in January 2007 for services rendered in 2006, Michael Winn was granted options to acquire 150,000 common shares, Brian Bayley was granted options to acquire 50,000 common shares and Alan Moon was granted options to acquire 50,000 common shares.

The following table sets forth details of all stock options exercised in fiscal 2006 by each of our directors, chief executive officer and chief financial officer.

	Options Exercised	Exercise Price	Market Price	Aggregate Value Realized
Scott C. Larsen President, Chief Executive Officer and Director	80,000	\$ 0.35	\$0.86	\$ 40,800

### C. Board Practices

**Term of Office.** At the end of fiscal 2006, we had four directors. The terms of all four expire at the 2008 annual meeting of shareholders:

Name	Term Expires	Held Office Since
Michael D. Winn	May 2008	May 2004
Brian B. Bayley	May 2008	May 2001
Alan C. Moon	May 2008	May 2004
Scott C. Larsen	May 2008	May 2005

Our board of directors currently has three committees: the Audit Committee, the Compensation Committee and the Corporate Governance Committee. Our three independent directors, Michael D. Winn, Brian B. Bayley and Alan C. Moon, comprise the Audit Committee, the Compensation Committee and the Corporate Governance Committee.

**Audit Committee.** The Audit Committee reviews the effectiveness of our financial reporting, management information and internal control systems, and the effectiveness of our independent auditors. It monitors financial reports, the conduct and results of the annual independent audit, finance and accounting policies and other financial matters. The Audit Committee also reviews and approves our interim consolidated financial statements and year end financial statements. The Audit Committee has been designated by the Board to serve as the Reserves Committee and reviews the reserve reports and conducts inquiries with the reserve engineers as it deems appropriate. To maintain the effectiveness and integrity of our financial controls, the Audit Committee monitors internal control and management information systems.

**Compensation Committee.** The Compensation Committee establishes and reviews our compensation policies. The Compensation Committee also reviews our senior management's performance. The Compensation Committee makes recommendations to the full Board for approval of granting stock options under our Amended Stock Option Plan and with respect to salaries and bonuses for executive officers. Our compensation philosophy is aimed at attracting and retaining quality and experienced personnel, which is critical to our success. Employee compensation, including executive officer compensation, is comprised of three elements: base salary, short-term incentive compensation (being cash bonuses) and long-term incentive compensation (being stock options). Since our focus has been in international oil and gas exploration, consideration is given to the factors such as time overseas, the risk inherent in certain international operations and the greater degree of

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time and effort international transactions may require. The Compensation Committee views the totality of our performance in its evaluation of compensation for executive officers.

### **D. Employees**

As of December 31, 2006, our TransAtlantic Petroleum (USA) Corp. subsidiary employed seven people full time. The persons employed are the Chief Executive Officer, the Chief Financial Officer, and five persons in accounting, geology engineering and administration. None of our employees are related. None of our employees are members of a collective bargaining unit. In addition to the foregoing, we also received technical services from a number of exploration, geophysical, geological, engineering, accounting and legal consultants in fiscal 2006.

### **E. Share Ownership**

None of our officers or directors owns more than one percent of our issued and outstanding common shares. For a description of our Amended and Restated Stock Option Plan (2006), please see Part II, Item 10.C. – “Material Contracts and Agreements.”

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

As of August 31, 2007, to the best of our knowledge, no person beneficially owns, directly or indirectly, or exercises control or direction over shares constituting more than five percent of the voting rights of our shares, other than as set forth below:

Shareholder	Number of Shares	Percentage
The Rule Family Trust	3,924,500	9.1%

Our major shareholders do not have different voting rights than any other shareholders. As of August 31, 2007, our shareholders list showed 43,131,306 common shares outstanding with 219 registered shareholders in Canada holding 32,264,583 common shares. We are not controlled, directly or indirectly, by any corporation, foreign government or other person. There has been no significant change in the percentage ownership held by major shareholders during the past three years.

### **B. Related Party Transactions**

Except as follows, none of our officers, directors or persons owning at least five percent of our outstanding securities, or affiliate thereof, has or has had any material interest, directly or indirectly, in any transaction involving us since January 1, 2004, or in any proposed transaction involving us.

We made investments (in unrelated parties) in the amount of \$1.5 million in loan syndications through Quest Capital Corp. in 2004 and 2005. All were secured, short term investments. In April 2007, we entered into a U.S. \$4.0 million short-term standby bridge loan from Quest Capital Corp. (“Quest”). We mortgaged certain of our assets, including the South Gillock property, and pledged 100% of the common stock of our wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007. Brian B. Bayley, one of our directors, is President, CEO and a director of Quest Capital Corp. Michael D. Winn, another of our directors, is also a director of Quest Capital Corp. Both Mr. Bayley and Mr. Winn abstained from decisions relating to the loan syndications and the credit agreement.

One of our directors, Brian B. Bayley, was also a director on the board of ANEC when we purchased an interest in the Bayou Couba property from ANEC and funded a \$1.8 million production payment in March 2003. Mr. Bayley was also on the board of ANEC when we purchased \$3.0 million of convertible debentures issued by ANEC. He was also on the board of ANEC when we sold our ANEC convertible debentures and our 10% interest in the Bayou Couba property to Dune Energy, Inc. Mr. Bayley abstained from voting on all three transactions. John Fleming, one of our former directors, became a director of ANEC following the purchase of the convertible debentures by us in October 2003 and continued as a director of ANEC until he passed away in March 2004. During fiscal 2006, we received net payments (oil and gas sales plus debenture interest less drilling advances and lease operating expenses) of \$345,000 (fiscal 2005 – \$163,000) from ANEC. These transactions have been recorded at the exchange amount agreed to between the related parties.

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Scott C. Larsen, our chief executive officer, was paid a one-time bonus of \$100,000 upon the successful sale of OML 109 interests in June 2005. In addition, we agreed to pay Mr. Larsen a bonus payment equal to 3.87% of the amount received by us from a net profits agreement with the purchaser of the OML 109, if and when any such net profits are actually received, up to a total bonus payment of \$600,000.

Christopher H. Lloyd, our former chief financial officer, was paid a referral fee of \$15,000 by Quest Capital Corp. with respect to a syndicated loan opportunity he presented to Quest in March 2005; we participated in the syndication and the loan has now been repaid.

Each of the above transactions was conducted in an arms-length manner.

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

Financial statements are provided under Part III, Item 17.

**Legal or Arbitration Proceedings.** As of the date of this registration statement, we are, to the best of our knowledge, not subject to any material active or pending legal proceedings or claims against us or any of our properties. However, from time to time, we may be subject to claims and litigation generally associated with any business venture. Additionally, our operations are subject to risks of accident and injury, possible violations of environmental and other regulations, and claims associated with the risks of exploration operations some of which cannot be covered by insurance or other risk reduction strategies.

**Dividend Policy.** We have not paid any cash dividends on our common stock and have no present intention of paying dividends. Our current policy is to retain earnings, if any, for use in operations and in business development.

### **B. Significant Changes**

In April 2007, we entered into a U.S. \$4.0 million short-term standby bridge loan from Quest. We mortgaged certain of our assets, including the South Gillock property, and pledged 100% of the common stock of our wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. At closing, we paid Quest a loan fee totaling 132,353 shares of our common stock at a deemed price of \$0.68 per share. In addition, we paid Quest an amount equal to 5% of the principal drawn down, payable in our common shares using a formula based on a discount to the five-day volume weighted average trading price. We drew down \$1.0 million on the loan on April 16, 2007 and issued 64,766 common shares to Quest at a deemed issue price of \$0.77 per share. We drew down \$1.5 million on the loan on May 9, 2007 and issued 102,174 common shares to Quest at a deemed issue price of \$0.73 per share. We drew down \$500,000 on the loan on June 6, 2007 and issued 65,074 common shares to Quest at a deemed issue price of \$0.38 per share. We drew down \$1.0 million on the loan on August 10, 2007 and issued 139,456 common shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

## **Item 9. The Offer and Listing**

### **A. Offer and Listing Details**

See Item 9.C below.

### **B. Plan of Distribution**

Not Applicable

### **C. Markets**

Our shares of common stock are traded in Canada on the Toronto Stock Exchange ("TSX") under the symbol "TNP.U." As of June 30, 2007, we had 43,131,306 common shares outstanding. Our common shares are issued in registered form and the number of common shares reported to be held by record holders in Canada and the United States is taken from the records of Computershare Trust Company of Canada, the registrar and

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transfer agent for our common shares. For U.S. reporting purposes, we are a foreign private issuer. We currently have no established market for trading our common shares in the United States. The high and low prices for our common shares from January 1, 2002 through December 31, 2006 on the TSX are as follows:

	High (\$US)	Low (\$US)
January 1, 2002 through December 31, 2002	\$0.03	\$0.19
January 1, 2003 through December 31, 2003	\$0.33	\$0.12
January 1, 2004 through December 31, 2004	\$1.20	\$0.19
January 1, 2005 through December 31, 2005	\$1.02	\$0.59
January 1, 2006 through December 31, 2006	\$1.48	\$0.76

The high and low prices for our common shares for each quarter from January 1, 2005 through September 30, 2007 on the TSX are as follows:

	High (\$US)	Low (\$US)
January 1, 2005 through March 31, 2005	\$0.90	\$0.65
April 1, 2005 through June 30, 2005	\$0.85	\$0.67
July 1, 2005 through September 30, 2005	\$0.96	\$0.59
October 1, 2005 through December 31, 2005	\$1.02	\$0.73
January 1, 2006 through March 31, 2006	\$1.30	\$0.82
April 1, 2006 through June 30, 2006	\$1.35	\$1.09
July 1, 2006 through September 30, 2006	\$1.48	\$1.05
October 1, 2006 through December 31, 2006	\$1.12	\$0.76
January 1, 2007 through March 31, 2007	\$0.99	\$0.64
April 1, 2007 through June 30, 2007	\$0.92	\$0.35
July 1, 2007 through September 30, 2007	\$0.68	\$0.25

The high and low prices for our common shares for the most recent six months on the TSX are as follows:

	High (\$US)	Low (\$US)
April 1, 2007 through April 30, 2007	\$0.92	\$0.84
May 1, 2007 through May 31, 2007	\$0.90	\$0.40
June 1, 2007 through June 30, 2007	\$0.48	\$0.35
July 1, 2007 through July 31, 2007	\$0.68	\$0.48
August 1, 2007 through August 31, 2007	\$0.60	\$0.34
September 1, 2007 through September 30, 2007	\$0.40	\$0.25

**Warrants.** In December 2006 we issued 4,500,000 Units at a price of \$0.85 per Unit. Each Unit consisted of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$1.05 per share until December 2008; provided however, if the volume weighted average closing price of our common shares exceeds \$1.55 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, we also issued warrants to acquire 219,375 common shares as fees to our financial advisors exercisable on the same terms as the warrants forming part of the financing Units.

In November 2005, pursuant to a financing, we issued 5,000,000 Units at a price of \$0.85 per Unit. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$1.05 per share until November 2007; provided however, if the volume weighted average closing price of our common shares exceeds \$1.40 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, we also issued warrants to acquire 375,000 common shares to the underwriters exercisable on the same terms as the warrants forming part of the financing Units.

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Portions of the December 2006 and November 2005 private placements were conducted in the United States. Neither transaction described above involved any public offering, and we believe that the transactions were exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof or Regulation D promulgated thereunder. The investors represented their intentions to acquire the securities for investment purposes only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the instruments issued to them. The investors had adequate access, through their relationships with us or our agents, and from public sources, to information about us.

In April 2005, we issued 500,000 share purchase warrants as part of the consideration for our purchase of the South Gillock property. Each warrant entitled the holder to acquire one common share at a price of \$1.00 per share until April 15, 2007. All of these warrants expired unexercised.

### **D. Selling Shareholders**

Not Applicable

### **E. Dilution**

Not Applicable

### **F. Expenses of the Issue**

Not Applicable

## **Item 10. Additional Information**

### **A. Share Capital**

Our authorized share capital consists of an unlimited number of common shares without par value. All issued shares are fully paid and non-assessable. As of December 31, 2006 and June 30, 2007, we had 42,556,939 and 43,131,306, respectively, common shares issued and outstanding. As of December 31, 2006 and June 30, 2007, we had outstanding an aggregate of 2,280,000 and 3,410,000, respectively, options to purchase common shares pursuant to our Amended and Restated Stock Option Plan (2006). As of December 31, 2006 and June 30, 2007, we also had outstanding 7,976,625 and 7,451,625, respectively, share purchase warrants related to private placements which closed in December 2006 and November 2005. Each of the outstanding 2,732,250 November 2005 warrants entitles the holder to acquire one common share at a price of \$1.05 through November 6, 2007. Each of the outstanding 4,719,375 December 2006 warrants entitles the holder to acquire one common share at a price of \$1.05 through December 4, 2008. If the volume weighted average closing price of our common shares exceeds \$1.40 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the November 2005 warrants, thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration. If the volume weighted average closing price of our common shares exceeds \$1.55 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the December 2006 warrants, thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration.

### **B. Articles of Incorporation and Bylaws**

The *Business Corporations Act* (Alberta) requires any one of our directors or officers who is a party to a material contract or a material transaction, whether made or proposed, with us or who is a director or officer of or has a material interest in any person who is a party to a material contract or a material transaction, whether made or proposed, with us to disclose in writing to us or request to have entered in the minutes of the meeting of directors or committees of directors the nature and extent of his or her interest, and shall, except in limited circumstances (including votes in respect of contracts relating primarily to a director's remuneration or for a director's indemnity or insurance), refrain from voting in respect of the material contract or material transaction. Neither the Act, our articles nor our bylaws require an independent quorum to enable the directors to vote compensation to themselves or any of their members.

The board of directors has an unlimited power to borrow, issue debt obligations and to charge our assets, provided only that such power is exercised honestly and in good faith with a view to our best interests and that in exercising such power, the directors exercise the care, diligence and skill that a reasonably prudent person

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would exercise in comparable circumstances. There is no mandatory retirement age for our directors, and the directors are not required to own any of our shares in order to qualify as a director.

We have only one class of common shares, without any special rights or restrictions. Holders of common shares are entitled to receive notice of and attend all meetings of our shareholders and are entitled to one vote for each common share held on all votes taken at such meetings. There are no cumulative voting rights, in consequence of which a simple majority of votes at the annual meeting can elect all of our directors. Each common share carries with it the right to share equally with every other common share in such dividends as the directors may in their discretion declare. The dividend entitlement of a shareholder of record is fixed at the time of any such declaration by the board of directors. Pursuant to our by-laws, any dividend which is unclaimed after a period of six years from the date on which such dividend is declared to be payable will be forfeited and revert to us. Each common share also carries with it the right to share equally with every other common share in any distribution of any of our remaining property, after payment to creditors, on any winding up, liquidation or dissolution. There are no sinking fund provisions. All common shares must be fully paid for prior to issue and are thereafter subject to no further capital calls by us. There exists no discriminatory provision affecting any existing or prospective holder of common shares as a result of such shareholder owning a substantial number of shares.

Under the *Business Corporations Act* (Alberta), the amendment of certain rights attaching to the common shares requires the shareholders to pass a special resolution approved by not less than two-thirds of the votes cast by the holders of such shares voting at a special meeting of such holders. The Act requires notice of a special meeting to state the nature of the proposed business in sufficient detail to permit a shareholder to form a reasoned judgment and to include the text of any special resolution to be submitted at the meeting. Pursuant to our bylaws, a quorum for a meeting of the holders of common shares occurs when there are at least two persons present in person, each being a shareholder or a duly appointed proxy or representative for an absent shareholder, and representing in the aggregate not less than 10% of the outstanding common shares. In circumstances where the rights of common shares may be amended to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of common shares, holders of common shares have the right under the *Business Corporations Act* (Alberta) to dissent from such amendment and require us to pay them the then fair value of the common shares.

There are two types of shareholder meetings: annual meetings and special meetings. Pursuant to the *Business Corporations Act* (Alberta), an annual shareholder meeting shall be held not later than 15 months after the holding of the last preceding annual meeting. The Board may call a special meeting of shareholders at any time. Notice of any shareholder meeting must be accompanied by an information circular describing the proposed business to be dealt with and making disclosures as prescribed by the *Securities Act* (Alberta). A shareholder or shareholders having in the aggregate 5% of our issued shares may requisition our directors to call a meeting for the purposes stated in the requisition. Except in certain circumstances, the Board is required to call such meeting within 21 days after receiving such requisition and if they do not, the shareholders who requisitioned the meeting may call the meeting. Admission to shareholder meetings is open to registered shareholders and their duly appointed proxies and our directors and auditors. Others may be admitted on the invitation of the chairman of the meeting or with the consent of the meeting.

Neither our articles nor our bylaws contain any limitations on the rights of non-resident or foreign shareholders to hold or exercise rights on our shares and there is no limitation under the *Business Corporation Act* (Alberta) on the right of a non-resident to hold shares in a corporation incorporated under such Act.

There are no provisions in our articles or bylaws that would have an effect of delaying, deferring or preventing a change in control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

There is no provision in our articles setting a threshold or requiring or governing disclosure of shareholder ownership above any level. Securities Acts, regulations and the policies and rules thereunder in the Provinces of Alberta, British Columbia and Ontario, where we are a reporting issuer, require any person holding or having control of more than 10% of our issued shares to file insider returns disclosing such share holdings.

## **C. Material Contracts and Agreements**

**Employment Agreements.** We entered into an employment agreement with Mr. Larsen, our President and Chief Executive Officer, effective July 1, 2005. The agreement expires upon the death, disability,

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resignation or other termination of employment of Mr. Larsen. This agreement provides for an annual base salary to Mr. Larsen as approved by our Board, initially at the rate of \$240,000 per year. The agreement also provides for Mr. Larsen's participation in our Amended and Restated Stock Option Plan (2006) and other benefits made available to our executives resident in the U.S. In accordance with the terms of the agreement, one of our subsidiaries pays a portion of Mr. Larsen's annual salary to Charles Management Inc., a consulting company wholly-owned by Mr. Larsen.

If the employment agreement is terminated (1) by us at any time without cause (as defined in the agreement) or (2) by Mr. Larsen within sixty days of an event that constitutes "constructive dismissal" (as defined in the agreement), then we will pay Mr. Larsen a lump sum amount equal to Mr. Larsen's annual salary plus \$15,000 (the "termination amount"). If a "change in control" (as defined in the agreement) results in either (1) the termination of Mr. Larsen's employment without cause within thirty days prior to or within one year after the change in control, or (2) a constructive dismissal within one year of the change in control, we will pay Mr. Larsen a lump sum amount equal to the termination amount. Under the agreement, Mr. Larsen agreed to certain confidentiality and non-solicitation obligations, and in order to receive the termination amount set forth in the agreement, Mr. Larsen must first sign a release in the form set forth in the agreement.

We entered into a substantially similar employment agreement with Mr. Lloyd, our Chief Financial Officer. His agreement provides for an annual base salary of \$144,000 and is dated effective May 1, 2005. Mr. Lloyd's termination amount is equal to one-half of his annual salary plus \$7,500. Mr. Lloyd's employment was terminated in January 2007, and he received \$79,500 in severance pay per the terms of his employment agreement.

**Participating Interest Agreement.** We entered into an agreement with Mr. Larsen under which we granted Mr. Larsen a participating interest in any compensation we receive pursuant to the agreement we entered into in June 2005 concerning the sale of OML 109 assets (the "Compensation Agreement"). Under the participating interest agreement, Mr. Larsen will receive 3.87% of any "TWL Compensation" (as defined in the Compensation Agreement) we receive, provided that in no event will Mr. Larsen receive more than \$600,000 of the TWL Compensation.

**Amended and Restated Stock Option Plan (2006).** Our only equity compensation plan is the Amended and Restated Stock Option Plan (2006) (the "Option Plan"), which has been approved and adopted by our shareholders. Pursuant to the Option Plan, we may grant stock options to our directors, officers, employees and consultants or to directors, officers, employees or consultants of our subsidiaries. The stock options enable such persons to purchase our common shares at the exercise price fixed by our Board at the time the option is granted. Our Board determines the number of common shares purchasable pursuant to each option and such exercise price within the guidelines established by the Option Plan. These guidelines allow the Board to authorize the issuance of options with a term not to exceed 10 years and to set other conditions to the exercise of options, including any vesting provisions. All options presently issued have terms of five years and all are fully vested. Consistent with the rules of the Toronto Stock Exchange, our Option Plan requires that the exercise price of the options at the time of grant may not be lower than the market price of our common shares, which is the closing price of our common shares on the Toronto Stock Exchange on the trading day immediately prior to the date the stock option is granted.

The option agreements must provide that the option can only be exercised by the optionee and only for so long as the optionee shall continue in the capacity outlined above or within a specified period after ceasing to continue in such capacity. The options are exercisable by the optionee giving us notice and payment of the exercise price for the number of common shares to be acquired. Under the Option Plan, our Board is empowered to grant stock options to insiders without further shareholder approval. The aggregate maximum number of common shares which may be reserved for issuance to any one person at any time under the Option Plan is five percent of the number of common shares that are outstanding immediately prior to the reservation in question, excluding common shares issued pursuant to our share compensation arrangements over the preceding one-year period (the "Outstanding Issue"). The aggregate number of common shares which may be issued to any one of our insiders within a one year period cannot exceed 5% of the Outstanding Issue. In addition, (a) the maximum aggregate number of common shares which can be reserved for issuance to insiders is limited to 10% of the Outstanding Issue and (b) the maximum aggregate number of common shares which can be issued to insiders, within a one year period, is limited to 10% of the Outstanding Issue.

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Stock options granted under the Option Plan are not assignable. We do not provide financial assistance to facilitate the purchase of common shares on exercise of stock options. The Option Plan is a fixed maximum percentage plan pursuant to which the maximum number of our common shares which can be reserved for issuance pursuant to stock options is equal to 10% of the number of issued and outstanding common shares on the date of grant of any stock option. Since the Option Plan is a fixed percentage plan rather than a fixed number plan, the Option Plan allows the reloading of common shares authorized for issuance upon the exercise or cancellation of stock options granted under the Option Plan up to the 10% maximum percentage amount. Because our Option Plan is a fixed maximum percentage plan, it must be approved every three years by both our Board and our shareholders. In addition, any change to the maximum percentage of our common shares authorized under the Option Plan must be approved by both our Board and our shareholders. The Option Plan sets forth the types of amendments that can be made by our Board without shareholder approval, which include altering the terms and conditions of vesting applicable to any stock options; extending the term of stock options held by a person other than any of our insiders; accelerating the expiry date in respect of stock options; and adding a cashless exercise feature, payable in cash or common shares.

**Warrants.** In December 2006 we issued 4,500,000 Units at a price of \$0.85 per Unit. Each Unit consisted of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$1.05 per share until December 2008; provided however, if the volume weighted average closing price of our common shares exceeds \$1.55 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, we also issued warrants to acquire 219,375 common shares as fees to our financial advisors exercisable on the same terms as the warrants forming part of the financing Units.

In November 2005 we closed a \$4.25 million bought deal underwritten private placement financing. Pursuant to the financing, we issued 5,000,000 Units at a price of \$0.85 per Unit. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$1.05 per share until November 6, 2007, provided however, if the volume weighted average closing price of our common shares exceeds \$1.40 per share for 20 consecutive trading days, we are entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, we also issued warrants to acquire 375,000 common shares to the underwriters exercisable on the same terms as the warrants forming part of the financing Units.

In April 2005, we issued 500,000 share purchase warrants as part of the consideration for our purchase of the South Gillock property. Each warrant entitled the holder to acquire one common share at a price of \$1.00 per share until April 15, 2007. All of these warrants expired unexercised.

**Credit Agreement.** In April 2007, we entered into a U.S. \$4.0 million short-term standby bridge loan from Quest. We mortgaged certain of our assets, including the South Gillock property, and pledged 100% of the common stock of our wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. At closing, we paid Quest a loan fee totaling 132,353 shares of our common stock at a deemed price of \$0.68 per share. In addition, we paid Quest an amount equal to 5% of the principal drawn down, payable in our common shares using a formula based on a discount to the five-day volume weighted average trading price. We drew down \$1.0 million on the loan on April 16, 2007 and issued 64,766 common shares to Quest at a deemed issue price of \$0.77 per share. We drew down \$1.5 million on the loan on May 9, 2007 and issued 102,174 common shares to Quest at a deemed issue price of \$0.73 per share. We drew down \$500,000 on the loan on June 6, 2007 and issued 65,074 common shares to Quest at a deemed issue price of \$0.38 per share. We drew down \$1.0 million on the loan on August 10, 2007 and issued 139,456 common shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

## **D. Exchange Controls**

There are no governmental laws, decrees, or regulations in Canada that restrict the export or import of capital or that affect the remittance of dividends, interest, or other payments to nonresident holders of our common stock. However, any such remittance to a non-corporate resident of the United States may be subject to a 15% withholding tax pursuant to Article XI of the reciprocal tax treaty between Canada and the United States.

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Except as provided in the Investment Canada Act (the “Act”), enacted on June 20, 1985, as amended, as further amended by the North American Free Trade Agreement (NAFTA) Implementation Act (Canada) and the World Trade Organization (WTO) Agreement Implementation Act, there are no limitations under the laws of Canada, the Province of Alberta or in the charter or any other of our constituent documents on the right of non-Canadians to hold and/or vote our common stock.

### **E. Taxation**

The following paragraphs set forth certain United States and Canadian federal income tax considerations in connection with the payment of dividends on and purchase or sale of our shares of common stock. The tax considerations are stated in general terms and are not intended to be advice to any particular shareholder. Each prospective investor is urged to consult his or her own tax advisor regarding the tax consequences of his or her purchase, ownership and disposition of shares of our common stock.

The discussion set forth below is based upon the provisions of the Income Tax Act (Canada) (the “Tax Act”), the Internal Revenue Code of 1986, as amended (the “Code”) and the Convention between Canada and the United States of America with respect to Taxes on Income and on Capital (the “Convention”), as well as United States Treasury regulations and rulings and judicial decisions. Except as otherwise specifically stated, the following discussion does not take into account or anticipate any changes to such laws, whether by legislative action or judicial decision. The discussion does not take into account the provincial tax laws of Canada or the tax laws of the various state and local jurisdictions in the United States.

**Canadian Federal Income Tax Considerations.** The following discussion applies only to citizens and residents of the United States and United States corporations who are not resident in Canada and will not be resident in Canada and who do not use or hold nor are deemed to use or hold such shares of our common stock in carrying on a business in Canada.

The payment of cash dividends and stock dividends on the shares of our common stock will generally be subject to Canadian withholding tax. The rate of the withholding tax will be 25% or such lesser amount as may be provided by treaty between Canada and the country of residence of the recipient. Under the Convention, the withholding tax generally would be reduced to 15%.

Neither Canada nor any province thereof currently imposes any estate taxes or succession duties. Provided a holder of shares of our common stock has not, within the preceding five years, owned (either alone or together with persons with whom he or she does not deal at arm’s length) 25% or more of the shares of common stock, the disposition (or deemed disposition arising on death) of such shares of common stock will not be subject to the capital gains provisions of the Tax Act.

**United States Federal Income Tax Considerations.** The following discussion is addressed to US holders. As used in this section, the term “US holder” means a holder of our common stock that is for United States federal income tax purposes (1) an individual citizen or resident of the United States, (2) a corporation created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, or (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust, or a trust was in existence on August 20, 1996, and validly elected to continue to be treated as a United States person. This discussion deals only with the holders that hold their common stock as capital assets within the meaning of Section 1221 of the Code. The discussion does not address all aspects of United States federal income taxation that may be relevant to US holders in light of their particular circumstances, nor does it address the United States federal income tax consequences to US holders that are subject to special rules under the Code, including, but not limited to, (i) dealers or traders in securities, (ii) financial institutions, (iii) tax-exempt organizations or qualified retirement plans, (iv) insurance companies, (v) entities that are taxed under the Code as partnerships, pass-through entities or “Subchapter S Corporations”, (vi) persons or entities subject to the alternative minimum tax, (vii) persons holding common stock as a hedge or as part of a straddle, constructive sale, conversion transaction, or other risk management transaction, and (viii) holders who hold their common stock other than as a capital asset.

**Dividends.** Subject to the discussion of the “passive foreign investment company” rules below, a US holder owning shares of common stock must generally treat the gross amount of dividends paid by us to the extent of our current and accumulated earnings and profits without reduction for the amount of Canadian

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withholding tax, as dividend income for United States federal income tax purposes. To the extent that distributions exceed our current or accumulated earnings and profits, they will be treated first as a tax-free return of capital, which will reduce the holder's adjusted tax basis in his or her common stock (but not below zero), then as capital gain. The dividends generally will not be eligible for the "dividends received" deduction allowed to United States corporations. The amount of Canadian withholding tax on dividends may be available, subject to certain limitations, as a foreign tax credit or, alternatively, as a deduction (see discussion at "Foreign Tax Credit" below). In general, dividends paid by us will be treated as income from sources outside the United States if less than 25% of our gross worldwide income for the 3-year period ending with the close of our taxable year preceding the declaration date of the dividends was effectively connected with a trade or business in the United States. If 25% or more of our worldwide gross income for the 3-year testing period is effectively connected with a trade or business in the United States, then for United States federal income tax purposes our dividends will be treated as U.S. source income in the same proportion that the U.S. trade or business income bears to our total worldwide gross income. Dividends paid by us generally will be "passive income," or in the case of certain types of taxpayers, "financial services income" for foreign tax credit purposes.

If we make a dividend distribution in Canadian dollars, the U.S. dollar value of the distribution on the date of receipt is the amount includible in income. Any subsequent gain or loss in respect of the Canadian dollars received arising from exchange rate fluctuations generally will be U.S. source ordinary income or loss.

Long-term capital gain of noncorporate taxpayers generally is eligible for preferential tax rates. Additionally, for taxable years beginning after December 31, 2002 and before January 1, 2011, subject to certain exceptions, dividends received by certain noncorporate taxpayers from "qualified foreign corporations" are taxed at the same preferential rates that apply to long-term capital gain. The maximum federal tax rate on net long-term capital gains recognized by noncorporate taxpayers currently is 15%. Provided that we are not a "passive foreign investment company," as discussed below, we currently should meet the definition of "qualified foreign corporation." As a consequence, dividends paid to certain noncorporate taxpayers should be taxed at the preferential rates.

**Sale or Exchange of Common Stock.** Subject to the discussion of the "passive foreign investment company" rules below, the sale of a share of our common stock generally results in the recognition of gain or loss to the US holder in an amount equal to the difference between the amount realized and the US holder's adjusted tax basis in such share. Gain or loss upon the sale of the share will be long-term or short-term capital gain or loss, depending on whether the share has been held for more than one year. The maximum federal tax rate on net long-term capital gains currently is 15% for noncorporate taxpayers and 35% for corporations. Capital gain that is not long-term capital gain is taxed at ordinary income rates. The deductibility of capital losses is subject to certain limitations. Gain recognized by a US holder on the sale or other disposition of our common stock will generally be treated as United States source income.

**Foreign Tax Credit.** Subject to the limitations set forth in the Code, as modified by the Convention, a US holder may elect to claim a credit against his or her U.S. federal income tax liability for Canadian income tax withheld from dividends received in respect of shares of our common stock. Holders of our common stock and prospective US holders of our common stock should be aware that dividends we pay generally will constitute "passive income" for purposes of the foreign tax credit, which could reduce the amount of foreign tax credit available to them. The rules relating to the determination of the foreign tax credit are complex. US holders of our common stock and prospective US holders of our common stock should consult their own tax advisors to determine whether and to what extent they would be entitled to such credit. Holders who itemize deductions may instead claim a deduction for Canadian income tax withheld.

**Information Reporting and Backup Withholding.** Information reporting requirements will generally apply to dividends on, and the proceeds of a sale or exchange of, our common stock that are paid within the United States (and, in some cases, outside the United States) to US holders and certain exempt recipients (such as corporations). Certain US holders may be subject to backup withholding at the rate of 28% on dividends paid or the proceeds of a sale or exchange of our common stock. Generally, backup withholding will apply to a US holder only when the US holder fails to furnish us with or to certify to us the US holder's proper United States tax identification number or we are informed by the Internal Revenue Service of the United States that the US holder has failed to report payments of interest and dividends properly. US holders should consult their own tax advisors regarding the qualification for exemption from backup withholding and information reporting and the procedure for obtaining any applicable exemption.

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**Passive Foreign Investment Company Considerations.** Special rules apply to US holders that hold stock in a “passive foreign investment company” (“PFIC”). A non-U.S. corporation generally will be a PFIC for any taxable year in which either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the gross value of its assets consists of assets, determined on the basis of a quarterly average, that produce, or that are held for the production of, passive income. For this purpose, passive income generally includes, among other things, interest, dividends, rents, royalties and gains from certain commodities transactions.

We believe that we should not be classified as a PFIC for the current taxable year or prior taxable years, and we do not anticipate being a PFIC with respect to future taxable years. However, there can be no assurance that we will not be considered a PFIC for any taxable year, because (1) the application of the PFIC rules to our circumstances is unclear and (2) status under the PFIC rules is based in part on factors not entirely within our control (such as market capitalization). Furthermore, there can be no assurance that the Internal Revenue Service will not challenge our determination concerning our PFIC status. Therefore, US holders and prospective US holders are urged to consult with their own tax advisors with respect to the application of the PFIC rules to them.

If, contrary to our expectations, we were to be classified as a PFIC for any taxable year, a US holder may be subject to an increased tax liability (including an interest charge) upon the receipt of certain distributions from us or upon the sale, exchange or other disposition of our common stock, unless such US holder timely makes one of two elections. First, if, for any taxable year that we are treated as a PFIC, a US holder makes a timely election to treat us as a qualified electing fund (“QEF”) with respect to such Holder’s interest in common stock, the electing US holder would be required to include annually in gross income (1) such Holder’s pro rata share of our ordinary earnings, and (2) such Holder’s pro rata share of any of our net capital gain, regardless of whether such income or gain is actually distributed. In general, a US holder may make a QEF election for any taxable year at any time on or before the due date (including extensions) for filing such Holder’s United States federal income tax return for such taxable year. However, Treasury regulations provide that a US holder may be entitled to make a retroactive QEF election for a taxable year after the election’s due date if certain conditions are satisfied. In the event of a determination by us or the Internal Revenue Service that we are a PFIC, we intend to comply with all record-keeping, reporting and other requirements so that US holders, at their option, may maintain a QEF election with respect to us. However, if meeting those record-keeping and reporting requirements becomes onerous, we may decide, in our sole discretion, that such compliance is impractical, and will notify US holders accordingly.

As an alternative to the QEF election, US holders may elect to mark their common stock to its market value (a “mark-to-market election”). If a valid mark-to-market election is made, the electing US holder generally will recognize ordinary income for the taxable year an amount equal to the excess, if any, of the fair market value of their common stock as of the close of such taxable year over the US holder’s adjusted tax basis in the common stock. In addition, the US holder generally is allowed a deduction for the lesser of (1) the excess, if any, of the US holder’s adjusted tax basis in the common stock over the fair market value of the common stock as of the close of the taxable year, or (2) the excess, if any of (A) the mark-to-market gains for the common stock included in gross income by the US holder for prior taxable years, over (B) the mark-to-market losses for common stock that were allowed as deductions for prior tax years.

If we were determined to be a PFIC in any year, a US holder who beneficially owned shares of our common stock during that year would be required to file an annual return on Internal Revenue Service Form 8621 with the Internal Revenue Service that described any distributions received from us and any gain realized by that US holder on the disposition of their shares of our common stock.

The PFIC rules are complex. Accordingly, US holders and prospective US holders of our common stock are strongly urged to consult their own tax advisors concerning the impact of these rules, including the making of QEF or mark-to-market elections, on their investment or prospective investment in our common stock.

### **F. Dividends and Paying Agents**

We have not paid any dividends since our inception and have no plans to pay dividends.

### **G. Statement of Experts**

Our consolidated financial statements as of December 31, 2006 and 2005, and for each of the years in the three year period ended December 31, 2006, have been included herein and in the registration statement, in

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reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

Netherlands, Sewell & Associates, Inc. have consented to the inclusion in this registration statement of its independent engineering report of our proved reserves as at December 31, 2006.

### **H. Documents on Display**

We have filed this Registration Statement on Form 20-F with the SEC, under the Securities and Exchange Act of 1934, as amended, with respect to our common stock. You may read and copy all or any portion of this registration statement or other information in the SEC's public reference room at 100 F. Street, NE, Washington, D.C. 20549. You can also request copies of these documents upon payment of a duplicating fee, by writing the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC maintains a web site (<http://www.sec.gov>) that contains all of our filings with the SEC. The documents concerning us may also be viewed at our offices in Dallas, Texas during normal business hours.

### **I. Subsidiary Information**

Not applicable.

### **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

Market risk represents the risk of loss that may impact our financial position, results of operations, or cash flows due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks. We do not have activities related to derivative financial instruments or derivative commodity instruments. We do hold a portfolio of equity securities resulting from previous business transactions. These securities are susceptible to equity market risk.

The oil and gas industry is exposed to a variety of risks including the uncertainty of finding and recovering new economic reserves, the performance of hydrocarbon reservoirs, securing markets for production, commodity prices, interest rate fluctuations, potential damage to or malfunction of equipment and changes to income tax, royalty, environmental or other governmental regulations. We mitigate these risks to the extent we are able by:

- utilizing competent, professional consultants as support teams to company employees;
- performing careful and thorough geophysical, geological and engineering analyses of each prospect;
- maintaining adequate levels of property liability and other business insurance;
- limiting our prospect operations to the extent appropriate.

Market risk is the possibility that a change in the prices for natural gas, natural gas liquids, condensate and oil, foreign currency exchange rates, or interest rates will cause the value of a financial instrument to decrease or become more costly to settle. We are exposed to commodity price risks, credit risk and foreign currency exchange rates.

**Commodities Price Risk.** Our financial condition, results of operations and capital resources are highly dependent upon the prevailing market prices of oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond our control. Factors influencing oil and natural gas prices include the level of global demand for crude oil, the foreign supply of oil and natural gas, the establishment of and compliance with production quotas by oil exporting countries, weather conditions which determine the demand for natural gas, the price and availability of alternative fuels and overall economic conditions. It is impossible to predict future oil and natural gas prices with any degree of certainty. Sustained weakness in oil and natural gas prices may adversely affect our financial condition and results of operations, and may also reduce the amount of oil and natural gas reserves that we can produce economically. Any reduction in our oil and natural gas reserves, including reductions due to price fluctuations, can have an adverse effect on our ability to obtain capital for our development activities. Similarly, any improvements in oil and natural gas prices can have a favorable impact on our financial condition, results of operations and capital resources. Based on year-end 2006 production levels, if 2006 average natural gas prices were to change by \$0.50 per mcf, the impact on our earnings and cash flow would have been approximately \$936,000; if the 2006 average oil prices were to change by \$1.00 per bbl, the impact on our earnings and cash flow would have been approximately \$753,000.

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**Credit Risk.** In addition to market risk, our financial instruments involve, to varying degrees, risk associated with trade credit and risk associated with operatorship of certain properties as well as credit risk related to our customers and trade payables. All of our accounts receivable are with customers or partners and are subject to normal industry credit risk. We do not require collateral or other security to support financial instruments nor do we provide collateral or security to counterparties. Currently, we do not expect non-performance by any counterparty.

**Foreign Exchange Risk.** Although our functional and reporting currencies are U.S. Dollars, we hold a portion of our cash and short term investments in Canadian Dollar denominated accounts. Therefore, whenever we fund subsidiary company operations, foreign exchange gains or losses are incurred (upon conversion from Canadian to U.S. Dollars). If the average currency exchange rate for 2006 between Canadian and U.S. Dollars were to change by ten percent, the net impact on our earnings and cash flow would have been approximately \$50,000 (all exchange costs are calculated as paid at the time of exchange).

**Interest Rate Risk.** Interest rate risk exists principally with respect to our cash invested in short term investments that bears interest at floating rates. At December 31, 2006, we had approximately \$3.9 million invested in money market funds which bear interest at floating rates. If average interest rates for 2006 were to change by one full percentage point, the net impact on our earnings and cash flow for 2006 would have been approximately \$61,000.

The following table presents our approximate sensitivities to various market risks:

Sensitivities	Estimated 2006 impact on:	
	Earnings	Cash Flow
Natural gas - US\$0.50/mcf change	\$ 74,283	\$ 74,283
Crude oil - \$1.00/bbl change	\$ 11,505	\$ 11,505
Foreign exchange — 10% change in the F/X Canadian to U.S. \$	\$ 49,730	\$ 49,730
Interest rate - 1% change (money markets only)	\$ 61,275	\$ 61,275

### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

## **PART II.**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

### **Item 15. Controls and Procedures**

Not applicable.

### **Item 16. [Reserved]**

#### **Item 16(A). Audit Committee Financial Expert**

Not applicable.

#### **Item 16(B). Code of Ethics**

Not applicable.

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**Item 16(C). Principal Accountant Fees and Services**

Not applicable.

**Item 16(D). Exemption from the Listing Standards for Audit Committees**

Not applicable.

**Item 16(E). Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**PART III.**

**Item 17. Financial Statements**

<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	F-1
<a href="#"><u>Consolidated Balance Sheets as at December 31, 2006 and December 31, 2005</u></a>	F-3
<a href="#"><u>Consolidated Statements of Loss and Deficit for the Years Ended December 31, 2006, December 31, 2005 and December 31, 2004</u></a>	
	F-4
<a href="#"><u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, December 31, 2005 and December 31, 2004</u></a>	F-5
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-6
<a href="#"><u>Interim Consolidated Balance Sheets as at June 30, 2007 and December 31, 2006 (Unaudited)</u></a>	F-19
<a href="#"><u>Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit for the Three and Six Months Ended June 30, 2007 and June 30, 2006 (Unaudited)</u></a>	
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<a href="#"><u>Interim Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2007 and June 30, 2006 (Unaudited)</u></a>	
	F-21
<a href="#"><u>Notes to Consolidated Financial Statements (Unaudited)</u></a>	F-22

**Item 18. Financial Statements**

Not Applicable.

**Item 19. Exhibits**

See Exhibit Index.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
TransAtlantic Petroleum Corp.

We have audited the accompanying consolidated balance sheets of TransAtlantic Petroleum Corp. ( the “Company”) and subsidiaries as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as at December 31, 2006 and 2005 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from US generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 13 to the consolidated financial statements.

/s/ KPMG LLP

Chartered Accountants  
Calgary, Canada

April 2, 2007, except for note 13, which is as of July 20, 2007 and note 1, which is as of October 5, 2007

**COMMENTS BY AUDITORS FOR US READERS ON CANADA – US REPORTING DIFFERENCES**

To the Board of Directors of TransAtlantic Petroleum Corp.

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the consolidated financial statements. Our report to the board of directors dated April 2, 2007, except for note 13, which is as of July 20, 2007, and note 1, which is as of October 5, 2007, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principle that has a material effect on the comparability of the Company's financial statements, such as the change described in note 13 to the consolidated financial statements as at December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006. Our report to the board of directors dated April 2, 2007, except for note 13, which is as of July 20, 2007, and note 1, which is as of October 5, 2007, is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

“KPMG LLP”

Chartered Accountants

Calgary, Canada

April 2, 2007, except for note 13, which is as of July 20, 2007 and note 1, which is as of October 5, 2007.

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**TRANSATLANTIC PETROLEUM CORP.**

Consolidated Balance Sheets

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

	2006	2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,688	\$ 7,567
Short-term investment (note 10)	—	1,500
Accounts receivable	422	780
Marketable securities (note 3(a))	—	92
Other current assets	84	8
	5,194	9,947
Restricted cash (notes 2, 11 and 12)	4,339	2,110
Property and equipment (note 4)	5,859	5,813
Investments (note 3(b))	—	1,057
	<u>\$ 15,392</u>	<u>\$18,927</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,990	\$ 924
Settlement provision (notes 4 and 11)	961	1,511
	2,951	2,435
Asset retirement obligations (note 5)	1,939	556
Shareholders' equity		
Share capital (note 6)	23,164	20,476
Warrants (note 6)	2,017	3,502
Contributed surplus (note 6)	4,284	1,508
Deficit	(18,963)	(9,550)
	10,502	15,936
Going concern (note 1)		
Commitments (notes 4 and 12)		
Subsequent events (notes 1 and 11)		
	<u>\$ 15,392</u>	<u>\$18,927</u>

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

“Brian Bayley”                      Director

“Alan Moon”                         Director

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**TRANSATLANTIC PETROLEUM CORP.**

Consolidated Statements of Loss and Deficit

Years ended December 31, 2006, 2005 and 2004

(Thousands of U.S. Dollars, except for per share amounts)

	2006	2005	2004
<b>Revenues</b>			
Oil and gas sales	\$ 2,149	\$1,598	\$ 6,359
Royalties	536	189	1,251
Oil and gas sales, net of royalties	1,613	1,409	5,108
<b>Expense</b>			
Lease operating and other production costs	1,779	1,918	4,396
International oil and gas activities (note 4)	2,279	440	—
Depreciation, depletion and accretion	1,513	606	718
Write down of property and equipment (note 4)	3,061	—	1,235
General and administrative	2,441	2,295	1,823
Write down of investment (note 3(b))	157	112	2,100
Settlement provision (note 11)	—	905	600
Gain on sale of marketable securities (note 3(a))	(118)	—	—
Loss on sale of investment (note 3(b))	400	—	—
Gain on sale of subsidiary (note 4)	—	(180)	—
Foreign exchange loss (gain)	59	29	(130)
	11,571	6,125	10,742
Interest and other income	545	943	441
Net loss for the year	9,413	3,773	5,193
Deficit, beginning of year	9,550	5,777	584
Deficit, end of year	<u>\$18,963</u>	<u>\$9,550</u>	<u>\$5,777</u>
Loss per share - basic and diluted (note 6)	<u>\$ 0.25</u>	<u>\$ 0.11</u>	<u>\$ 0.17</u>

See accompanying notes to consolidated financial statements.

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**TRANSATLANTIC PETROLEUM CORP.**

Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2005 and 2004

(Thousands of U.S. Dollars)

	2006	2005	2004
Cash provided by (used in)			
Operating activities			
Net loss for the year	\$(9,413)	\$(3,773)	\$(5,193)
Items not involving cash			
Gain on sale of subsidiary	—	(180)	—
Gain on sale of marketable securities	(118)	—	—
Loss on sale of investment	400	—	—
Depreciation, depletion and accretion	1,513	606	718
Stock-based compensation	260	410	714
Write down of property and equipment	3,061	—	1,235
Write down of investment	157	112	2,100
Changes in non-cash working capital	798	1,022	(529)
	(3,342)	(1,803)	(955)
Investing activities			
Property and equipment	(4,737)	(4,839)	(1,706)
Proceeds from sale of property and equipment and investment	2,000	—	155
Proceeds on sale of subsidiary	—	180	—
Proceeds on sale of marketable securities	210	—	—
Restricted cash	(2,229)	356	(32)
Redemption of short-term investments	1,500	—	—
Marketable securities	—	(268)	—
Investments	—	104	—
	(3,256)	(4,467)	(1,583)
Financing activities			
Exercise of warrants and options	222	—	—
Issuance of common shares, net	3,497	4,187	7,519
	3,719	4,187	7,519
Change in cash and cash equivalents	(2,879)	(2,083)	4,981
Cash and cash equivalents, beginning of year	7,567	9,650	4,669
Cash and cash equivalents, end of year	\$ 4,688	\$ 7,567	\$ 9,650
Supplemental cash flow information:			
Interest received	\$ 305	\$ 943	\$ 411
Interest paid	64	—	—

See accompanying notes to consolidated financial statements.

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### **TRANSATLANTIC PETROLEUM CORP.**

#### Notes to Consolidated Financial Statements

Years ended December 31, 2006, 2005 and 2004

(Tabular amounts in 000's of U.S. Dollars unless otherwise noted)

#### **1. Going concern**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that TransAtlantic Petroleum Corp. (the "Company") will realize its assets and discharge its liabilities in the normal course of operations.

At December 31, 2006, the Company had cash and cash equivalents of \$4.69 million, no long term debt and a working capital balance of \$2.2 million. During the year ended December 31, 2006, the Company incurred a net loss of \$9.4 million (2005 – \$3.77 million) and utilized funds from operations totaling \$3.34 million (2005 – \$1.80 million).

The Company estimates that it does not have sufficient funds to continue in operation past October 2007. Subsequent to December 31, 2006, the Company has drilled the SGU #96 well for costs totaling approximately \$4.0 million. Although the Company completed this well in June 2007, the Company will require significant immediate funding to continue its exploration, development and operating activities. In April 2007, the Company entered into a U.S. \$3.0 million short-term standby bridge loan from Quest Capital Corp. ("Quest") (see note 10). The Company mortgaged certain of its assets, including the South Gillock property, and pledged 100% of the common stock of its wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. At closing, the Company paid Quest a loan fee totaling 132,353 shares of its common stock at a deemed price of \$0.68 per share. In addition, the Company paid Quest an amount equal to 5% of the principal drawn down, payable in our common shares using a formula based on a discount to the five-day volume weighted average trading price. The Company drew down \$1.0 million on the loan on April 16 and issued 64,766 shares to Quest at a deemed issue price of \$0.77 per share. The Company drew down \$1.5 million on the loan on May 9 and issued 102,174 shares to Quest at a deemed issue price of \$0.73 per share. The Company drew down \$500,000 on the loan on June 6 and issued 65,074 shares to Quest at a deemed issue price of \$0.38 per share. On August 10 the Company and Quest increased the loan facility to \$4.0 million, and the Company drew down the additional \$1.0 million and issued 139,456 shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

Management and the Board of Directors continue to explore funding alternatives. Management considers the going concern assumption to be appropriate for these financial statements. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

#### **2. Significant accounting policies**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly owned subsidiaries.

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from those estimates and assumptions; however, management believes that such differences would not be material.

##### **(a) Property and equipment**

The Company uses the full cost method to account for its oil and gas activities. Under this method, oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost or market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or market of unproved properties.

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The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate. The adoption of the new guideline had no impact on the Company's financial statements.

Under the full cost method of accounting, the Company capitalizes all acquisition, exploration and development costs incurred for the purpose of finding oil and gas reserves in cost centers on a country-by-country basis. Costs associated with production and general corporate activities are expensed in the period incurred. The Company expenses pre-acquisition and reconnaissance activities. Proceeds from the sale of oil and gas properties are applied against capitalized costs, and gains or losses are not recognized unless the sale would alter the depletion rate by more than 20%.

The Company computes the provision for depreciation and depletion of oil and gas properties using the unit-of-production method based upon production and estimates of gross proved reserve quantities as determined by independent reservoir engineers. Unevaluated property costs are excluded from the amortization base until the properties associated with these costs are evaluated and determined to be productive or become impaired.

Depreciation of furniture, fixtures and other assets is provided for on the straight-line basis at rates between three and seven years designed to amortize the cost of the assets over their estimated useful lives.

(b) Asset retirement obligation

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability and any remaining difference is recognized as a gain or loss to earnings in the period in which the settlement occurs.

(c) Revenue recognition

Revenue from the sale of product is recognized upon delivery to the purchaser when title passes.

(d) Foreign currency translation

The Company translates foreign currency denominated transactions and the financial statements of integrated foreign operations using the temporal method. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates in effect at the transaction dates for non-monetary items. Income and expenses are translated at the average exchange rates in effect during the applicable period. Exchange gains or losses are included in operations in the period incurred.

(e) Stock-based compensation

The Company uses the fair value method when stock options are granted to employees and directors under the fixed share option plan. Under this method, compensation expense is measured at the grant date and recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The fair value of the options is determined using the Black-Scholes option pricing model.

(f) Income taxes

The Company uses the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

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### (g) Per share information

Basic per share amounts are calculated using the weighted average common shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only “in the money” dilutive instruments impact the diluted calculations in computing diluted earnings per share. Diluted calculations reflect the weighted average incremental common shares that would reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options assuming the proceeds would be used to repurchase shares at average market prices for the period.

### (h) Cash and cash equivalents

Cash and cash equivalents include term deposits and investments with original maturities of three months or less.

### (i) Restricted cash

Restricted cash represents cash placed in escrow accounts or in certificates of deposit that is pledged for the satisfaction of liabilities or performance guarantees. At December 31, 2006, restricted cash includes: \$961,000 in respect of the settlement of Nigerian liabilities (see note 11), \$3.35 million in certificates of deposit supporting guarantees of the Morocco work programs (see note 12) and \$26,000 relates to the certificate of deposit that is a collateral for the Amegy letter of credit in favor of the Oklahoma Tax Commission.

### (j) Marketable securities and investments

Marketable securities are stated at the lower of cost or market on a portfolio basis. Other long-term investments were carried at the lower of cost or estimated net realizable value.

## 3. Investments

### (a) Marketable securities

The Company sold its shares in Transco Resources and Tuscany Energy during the year ended December 31, 2006. The Company recognized a \$118,000 gain on the sale of these securities.

The following table summarizes the marketable securities held at December 31, 2006 and 2005:

Security (all Common in 000's)	Number Of Shares December 31,			Cost Basis December 31,			Market Value December 31,		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Transco Resources	—	100	100	—	\$ 27	\$ 27	—	\$111	\$ 22
Tuscany Energy	—	325	—	—	65	—	—	128	—
American Natural Energy Corp. (b)	—	—	176	—	—	35	—	—	21
	—	425	276	—	\$ 92	\$ 62	—	\$239	\$ 43

### (b) Investments

On September 1, 2005, the Company completed the purchase of 2,237,136 shares of American Natural Energy Corporation (“ANEC”) pursuant to ANEC’s private placement dated August 16, 2005. The purchase price was \$268,000 or \$0.12 per share. These shares were carried at the closing stock price of \$0.07 per share, or \$157,000, as of December 31, 2005. Based upon an analysis of ANEC’s financial position, the Company determined it appropriate to reserve \$157,000 against the investment as at December 31, 2006.

On December 22, 2006, the Company sold a property in the U.S. and all of the ANEC 8% convertible debentures it held for \$2.0 million in cash. The debentures, the value of which the Company had previously written down to \$900,000, had matured and were in default. At the time of the sale, a director of the Company was also a director of ANEC. Of the proceeds received and

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as per the sales agreement, \$500,000 was allocated to the debentures resulting in a loss on sale of investments totaling \$400,000. The remaining \$1.5 million was allocated to property and equipment.

**4. Property and equipment**

<u>2006</u>	<u>Cost</u>	<u>Accumulated depreciation and depletion</u>	<u>Net book value</u>
Crude oil and natural gas properties			
United States	\$11,164	\$ 6,877	\$4,287
Romania	1,572	—	1,572
Furniture, fixtures and other assets	238	238	—
Balance, December 31, 2006	<u>\$12,974</u>	<u>\$ 7,115</u>	<u>\$5,859</u>
<u>2005</u>			
Crude oil and natural gas properties			
United States	\$11,308	\$ 5,521	\$5,787
Furniture, fixtures and other assets	238	212	26
Balance, December 31, 2005	<u>\$11,546</u>	<u>\$ 5,733</u>	<u>\$5,813</u>

(a) United States:

On April 15, 2005, the Company completed the purchase of the South Gillock property in Texas. The Company paid \$3.0 million cash and issued 500,000 shares and 500,000 warrants exercisable at \$1.00 per share on or before April 15, 2007 for the property. The fair value of the warrants was determined using a Black-Scholes pricing model. A purchase equation is provided below:

<b>Consideration:</b>	
Cash	\$3,000
Common shares	350
Warrants	133
Acquisition costs	59
	<u>\$3,542</u>
<b>Assets acquired:</b>	
Property and equipment	\$3,892
Asset retirement obligations	(350)
	<u>\$3,542</u>

(b) Nigeria:

Effective June 20, 2005, the Company sold its Bahamian subsidiary which owned a 30% interest in certain properties, offshore Nigeria. In consideration, the Company received \$540,000 prior to disposal costs of \$220,000 (including legal, consulting and other deal-related costs) a subsequent cash payment of \$240,000 and contingent compensation of up to a maximum of \$16 million. A bonus equivalent to 3.87% of the contingent compensation (up to a maximum of \$600,000) will be paid to the President, if and when this contingent compensation is received by the Company. No amount of contingent consideration has been recognized in these financial statements. The Company paid the President a bonus of \$100,000 upon finalization of this agreement (included in general and administrative expense) in 2005. Of the \$1.5 million reserved at December 31, 2005, \$961,000 remained in escrow as of December 31, 2006 to address any remaining claims relating to the Company's prior operations in Nigeria (see note 11).

(c) Morocco:

As part of the Company's June 2005 award of a reconnaissance license in Morocco, the Company committed to a work program that will involve the reprocessing of seismic and other technical work over the property. The Company's portion of the remaining work commitment is estimated to cost

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\$120,000 and is required to be completed by June 2007. The license expired at the end of June 2007, and the Company is currently in ongoing discussions with the government to convert the license into an exploration permit.

In May 2006 the Company was awarded an exploration permit in Morocco. To retain the permit beyond the initial three-year term, the Company is required to shoot a 3D survey and drill an exploratory well.

The Company posted \$3.35 million in certificates of deposit pursuant to a guarantee of the work programs in Morocco and this amount plus accrued interest on the deposits is included in restricted cash at December 31, 2006. This amount reflects a \$300,000 reduction to the certificates of deposit in August 2006 for cash expenditures in Morocco.

(d) Romania:

The Company capitalized \$1.6 million of expenditures related to seismic surveys completed at the end of the year in Romania.

(e) Other countries:

Throughout 2006, the Company continued to evaluate and expand its initiatives in Morocco, Romania, Turkey and the U.K. North Sea. Approximately, \$2.3 million was incurred and expensed towards the pre-acquisition, reconnaissance, evaluation and development of the Company's international oil and gas activities including technical, professional and administrative costs.

(f) Ceiling test:

Based upon a ceiling test at December 31, 2006, the Company recorded an impairment of \$3.1 million related to its U.S. cost center. This impairment was largely due to lower reserves and prices at December 31, 2006 and an increase in the estimated asset retirement costs for the South Gillock property. The Company recorded an impairment of \$1.2 million related to its United States cost center based upon a ceiling test at December 31, 2004. The impairment was largely due to dry-hole costs incurred at the Bayou Couba property. At December 31, 2006, \$1.7 million (2005 - \$491,000; 2004 - \$141,000) of asset retirement costs are included in property and equipment. No overhead costs were capitalized and future development costs of \$25,000 (2005 - \$553,000; 2004 - nil) were included in the computations of depreciation and depletion for the year. Unproved property costs of \$894,000 (2005 - \$362,000; 2004 - nil) and drilling wells in progress of \$935,000 (2005 - nil; 2004 - nil) were excluded from depletion and depreciation.

The following table summarizes the pricing used in the December 31, 2006 ceiling test:

Year ending December 31,	Oil Price (\$/BBL)	Gas Price (\$/MMBTU)
2007	\$ 60.72	\$ 5.71
2008	66.07	6.97
2009	—	6.18
2010	—	5.66
Thereafter -	—	3.61

## 5. Asset retirement obligations

As part of its development of oil and gas opportunities, the Company incurs asset retirement obligations ("ARO") on its properties. The Company's ARO results from its responsibility to abandon and reclaim its net share of all working interest properties. At December 31, 2006 the net present value of the Company's total ARO is estimated to be \$1.9 million (2005 - \$556,000), with the undiscounted value being \$2.4 million (2005 - \$958,000). The majority of these obligations are not expected to begin until 2010. A discount rate of 7% was used to calculate the present value of the ARO.

	2006	2005
Beginning balance	\$ 556	\$155
Sale of oil and gas property (note 3(b))	(171)	—
Revision of estimate	1,341	—
Liabilities incurred	86	350
Accretion expense	127	51
Ending balance	<u>\$1,939</u>	<u>\$556</u>

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**6. Share capital**

- (a) Authorized  
Unlimited number of common shares, without par value
- (b) Issued  
Common shares:

(In thousands)	Number of Shares	Amount
Balance, December 31, 2003	23,831	\$12,099
Private placement of common stock	7,635	4,795
Share issue costs	338	(420)
Stock options exercised	48	44
Balance, December 31, 2004	31,852	16,518
Private placement of common stock	5,000	3,486
Share issue costs	—	(267)
Stock options exercised	370	389
Issued in conjunction with acquisition (note 4(a))	500	350
Unconverted shares forfeited	(63)	—
Balance, December 31, 2005	37,659	20,476
Private placement of common stock	4,500	2,493
Share issue costs	—	(214)
Stock options exercised	280	252
Stock warrants exercised	118	157
Balance, December 31, 2006	<u>42,557</u>	<u>\$23,164</u>

Warrants:

(In thousands)	Number of Warrants	Amount
Balance, December 31, 2003	—	—
Issued pursuant to private placement	7,635	\$ 2,840
Issue costs	—	(170)
Balance, December 31, 2004	7,635	2,670
Issued pursuant to private placement	2,500	762
Issued in conjunction with acquisition (note 4(a))	500	133
Issue costs	375	(63)
Balance, December 31, 2005	11,010	3,502
Expired	(7,635)	(2,670)
Exercised	(118)	(33)
Issued pursuant to private placement	4,500	1,333
Issue costs	219	(115)
Balance, December 31, 2006	<u>7,976</u>	<u>\$ 2,017</u>

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### (c) December 2006 private placement

The Company issued 4,500,000 Units at \$0.85 per Unit for gross proceeds of \$3.8 million. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$1.05 through December 4, 2008. If the volume weighted average closing price of the Company's common shares exceeds \$1.55 per share for 20 consecutive trading days, the Company will be entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, the Company paid a commission of \$249,000 and issued 219,375 finders warrants with an estimated fair value of \$60,000 exercisable on the same terms as the purchase warrants. In addition to the finder's fee, approximately \$80,000 of legal, consulting and filing fees were incurred related to the private placement.

### (d) November 2005 private placement

The Company issued 5,000,000 Units at \$0.85 per Unit for gross proceeds of \$4.25 million. Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$1.05 through November 17, 2007. If the volume weighted average closing price of the Company's common shares exceeds \$1.40 per share for 20 consecutive trading days, the Company will be entitled to accelerate expiration of the warrants (thereby requiring the warrant holder to exercise the warrant within 30 days of being notified of the accelerated expiration). In connection with issuance of the Units, the Company paid a commission of \$330,000 and issued 375,000 broker warrants with an estimated fair value of \$83,000 exercisable on the same terms as the purchase warrants.

### (e) January 2004 private placement

The Company issued 7,635,000 Units at \$1.00 per Unit for gross proceeds of \$7,635,000. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at a price of \$1.50 through January 30, 2006. All of the warrants expired unexercised in January 2006.

### (f) Option grants

In 2006, the Company granted 205,000, 25,000, 100,000 and 25,000 stock purchase options on April 5, April 17, May 23 and August 16, respectively. All of the options were granted pursuant to the Company's Amended and Restated Stock Option Plan with the following terms: i) immediate vesting; ii) five year term; iii) exercisable at \$1.10, \$1.12, \$1.17 and \$1.20 per share, respectively. Based upon these terms, a Black-Scholes pricing model derives a fair value for the grants of approximately \$260,000 recognized as stock-based compensation expense.

The estimated fair value of share options issued during the periods was determined using the Black-Scholes pricing model with the following assumptions:

Option Value Inputs	2006	2005	2004
Risk free interest rate	4.7%	5.3%	5.3%
Expected option life	5 Years	5 Years	5 Years
Volatility in the price of the Company's shares	74-77%	80%	81%

### (g) Per share amounts

Basic per common share amounts were calculated using a weighted average number of common shares outstanding for 2006 of 38,181,808 (2005 – 33,023,412; 2004 – 30,908,065).

### (h) Contributed surplus

	2006	2005
Beginning balance	\$1,508	\$1,302
Increase from stock based compensation	260	410
Transfer to share capital on option exercise	(154)	(204)
Warrants expired	2,670	—
Ending balance	<u>\$4,284</u>	<u>\$1,508</u>

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### (i) Stock option plan

The Company's Amended and Restated Stock Option Plan had 1.98 million common shares reserved for issuance as at December 31, 2006. All options presently issued under the plan have a five-year expiry. Details of the Company's plan as at December 31, 2006 and 2005 are presented below.

(Shares in thousands)	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,540	\$ 0.76	2,543	\$ 0.70
Granted	355	1.13	720	0.87
Expired	(335)	0.72	(353)	0.83
Exercised	(280)	0.63	(370)	0.50
Outstanding at end of year	<u>2,280</u>	<u>\$ 0.87</u>	<u>2,540</u>	<u>\$ 0.76</u>
Exercisable at end of year	<u>2,280</u>	<u>\$ 0.87</u>	<u>2,540</u>	<u>\$ 0.76</u>

The following table summarizes information about stock options as at December 31, 2006 (Shares in thousands):

Options Outstanding				Options Exercisable		
Range of Prices		Number outstanding	Weighted-average remaining contractual Life (years)	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
Low	High					
\$0.70	\$1.05	1,925	2.90	\$ 0.83	1,925	\$ 0.83
1.06	1.20	355	4.33	\$ 1.13	355	\$ 1.13
		<u>2,280</u>	<u>3.12</u>	<u>\$ 0.87</u>	<u>2,280</u>	<u>\$ 0.87</u>

### 7. Income taxes

The income tax provision differs from the amount that would be obtained by applying the Canadian basic federal and provincial income tax rate to net loss for the year as follows:

(In thousands)	2006	2005	2004
Statutory tax rate	34.5%	37.62%	38.62%
Expected income tax reduction	\$(3,247)	\$(1,419)	\$(2,006)
Increase (decrease) resulting from			
Stock-based compensation	76	154	276
Change in enacted tax rates	(163)	—	588
Expiration of tax deductions	1,045	—	—
Change in valuation allowance	1,868	1,265	1,142
Other	421	—	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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The components of the net future income tax asset at December 31, 2006 and 2005 is as follows:

(In thousands)	2006	2005
Future income tax liabilities		
Property and equipment in excess of tax values	\$ (212)	\$ —
Future income tax assets		
Property and equipment	\$ —	\$ 46
Operating loss carry-forwards	9,945	7,679
Capital loss carry-forwards	845	576
Share issue costs	255	208
Investments	54	396
Valuation allowance	(10,887)	(8,905)
Net future income tax asset	<u>\$ —</u>	<u>\$ —</u>

The Company and its wholly-owned subsidiaries have accumulated losses or resource-related deductions available for income tax purposes in Canada and the U.S. No recognition has been given in these consolidated financial statements to the future benefits that may result from the utilization of these losses for income tax purposes. The Company has non-capital tax losses in Canada of approximately \$859,000 which expire commencing in 2007 and non-capital tax losses in the U.S. of approximately \$23.5 million which expire commencing in 2008. The Company has capital tax losses in Canada of approximately \$5.0 million which have no expiry date.

## 8. Segment information

As at December 31, 2006, the Company and its subsidiaries operate in one reportable segment, the exploration for and the development and production of crude oil and natural gas. Identifiable assets, revenues and net loss in each of its geographic areas are as follows:

2006	Identifiable assets	Net Revenues	Net Loss
United States	\$ 4,709	\$ 1,604	\$6,631
Morocco	3,414	—	859
Romania	1,894	—	605
Corporate assets and other	5,375	9	1,318
	<u>\$ 15,392</u>	<u>\$ 1,613</u>	<u>\$9,413</u>
2005			
United States	\$ 11,094	\$ 1,400	\$2,922
Morocco	644	9	67
Corporate assets and other	7,189	—	784
	<u>\$ 18,927</u>	<u>\$ 1,409</u>	<u>\$3,773</u>
2004			
United States	\$ 3,880	\$ 744	\$2,288
Canada	(134)	—	2,367
Nigeria	198	4,364	538
Corporate assets and other	12,106	—	—
	<u>\$ 16,048</u>	<u>\$ 5,108</u>	<u>\$5,193</u>

## 9. Financial instruments

The fair value of the Company's financial instruments at December 31, 2006 of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values.

## 10. Related party transactions

- (a) In 2005, the Company made investments (in unrelated parties) in loan syndications through Quest Capital Corp. in the amount of \$1.5 million. The investments matured in March 2006 and all principal and interest on the investments was paid to the Company. As of December 31, 2006, the

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Company has recorded \$77,000 in interest from these investments (2005 - \$395,000). The Company and Quest Capital Corp. have two directors in common.

- (b) At December 31, 2006, a director of the Company was also a director of ANEC (see note 3(b)). During 2006 and 2005, the Company received or made the following payments to (from) ANEC:

(in thousands)	2006	2005	2004
Receipts from ANEC:			
Proceeds from oil & gas sales	\$ 403	\$ 702	\$ 796
Interest on debentures	60	240	240
Payments to ANEC:			
Drilling advances	—	(423)	(1,418)
Joint lease operations expenses	(118)	(356)	(207)
	<u>\$ 345</u>	<u>\$ 163</u>	<u>\$ (589)</u>

- (c) In December 2006, Quest Capital Corp. provided services in conjunction with the Company's private placement. The merchant bank was paid approximately \$22,000. The Company and Quest Capital Corp. have two directors in common.
- (d) In September 2005, the Company completed the purchase of 2,237,136 shares of ANEC pursuant to ANEC's private placement dated August 16, 2005. The purchase price was \$268,456 or \$0.12 per share; the value of this investment was reduced to \$0.07 per share at year end 2005. At the time of the sale, a director of the Company was also a director of ANEC.
- (e) Christopher H. Lloyd, our former chief financial officer, was paid a referral fee of \$15,000 by Quest Capital Corp. with respect to a syndicated loan opportunity he presented to Quest in March 2005; we participated in the syndication and the loan has been repaid.

## 11. Settlement provision

In conjunction with the sale of the Company's Nigerian subsidiaries effective June 20, 2005, the Company deposited \$1.76 million into an escrow fund to address any claims relating to operations in Nigeria over the past 10 years. The remaining escrow fund amount at December 31, 2006 is \$961,000. Pursuant to an agreement reached in 2007, \$406,000 of the remaining escrow amount has been allocated for final payment of liabilities with respect to years 1998 through 2004.

## 12. Commitments

- (a) In May 2006 the Company was awarded the Tselfat exploration permit in Morocco. To retain the license past the initial three-year term, the Company is required to shoot a 3D survey and drill an exploratory well. The Company posted a \$3.0 million bank guarantee in support of this work commitment. The bank guarantee is reduced annually based on work performed. In the event the Company fails to perform the work commitment, the bank guarantee (or the remaining portion thereof) will be forfeited. The Company also has a \$120,000 work commitment in 2007 with respect to its Guercif—Beni Znassen reconnaissance license in Morocco, which is supported by a similar bank guarantee.
- (b) On December 13, 2005, the Company amended the lease term for its office space in Dallas, Texas. The lease expires on January 31, 2011. The Company is committed to the following aggregate annual amounts:

2006	\$ 74
2007	80
2008	81
2009	83
2010	85
2011	7
	<u>\$410</u>

### 13. Reconciliation to Accounting Principles Generally Accepted in the United States

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's accounting policies do not differ materially from accounting principles generally accepted in the United States ("U.S. GAAP") except for the following:

(a) Comprehensive Income

Comprehensive income is recognized and measured under U.S. GAAP pursuant to SFAS No. 130, "Reporting Comprehensive Income". Under U.S. GAAP, comprehensive income is defined as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income (loss) and other comprehensive income. Other comprehensive income includes the unrealized holding gains and losses on the available-for-sale securities.

(b) Marketable Securities

Under accounting principles generally accepted in Canada, marketable securities are stated at the lower of cost or market. Under U.S. GAAP, investments classified as available for sale securities are recorded at market value and the unrealized gains and losses are recorded as comprehensive income and accumulated other comprehensive income within the shareholder's equity section of the balance sheet unless impairments are considered other than temporary.

(c) Oil and Gas Properties

Under Canadian GAAP the ceiling test is performed by comparing the carrying value of the cost centre based on the sum of the undiscounted cash flows expected from the cost center's use and eventual disposition. If the carrying value is unrecoverable, the cost centre is written down to its fair value using the expected present value approach of proved plus probable reserves using future prices. Under U.S. GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved oil and gas reserves using a discount factor of 10 percent. Prices used in the U.S. GAAP ceiling tests performed for this reconciliation were those in effect at the applicable year-end. There was no material difference arising out of the differences in prices. At December 31, 2004, 2005 and 2006, the Company recognized a U.S. GAAP ceiling test write down of \$246, \$nil and \$1,311 respectively (all impairment amounts are in thousands of dollars before and after tax). Depletion expense for the years ended December 31, 2004, 2005 and 2006 for U.S. GAAP is reduced by \$131, \$51, and \$35 thousand before and after tax respectively.

(d) Deficit Elimination

As a result of the reorganization of the capital structure which occurred in 2003, the deficit of TransAtlantic Petroleum Corp. of \$18,403 thousand was eliminated. Elimination of the deficit would not be permitted under U.S. GAAP.

(e) Stock based compensation

Under Canadian GAAP, the Company follows the fair value method of accounting for stock based compensation. The FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaced SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vest. We adopted SFAS No. 123R as of January 1, 2006, and there was no material impact.

(f) Additional disclosures

Additional disclosures required under U.S. GAAP:

	December 31, 2006	December 31, 2005
Components of accounts receivable		
Taxes receivable	309	—
Trade	113	780
	422	780
Components of accounts payable and accrued liabilities		
Trade	1,826	924
Accrued liabilities	164	—
	1,990	924

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### (g) Recently Issued United States Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that we recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of deficit. We adopted FIN 48 as of January 1, 2007 and there was no material impact.

In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided that no interim period financial statements have been issued for the financial year. We adopted FAS 155 as of January 1, 2007 and there was no material impact.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements" ("FAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the first quarter of 2008. We are currently evaluating the impact that FAS 157 will have on our consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities— Including an amendment of FASB Statement No. 115", ("FAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is expected to expand the use of fair value measurement. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, and is applicable beginning in the first quarter of 2008. We are currently evaluating the impact that FAS 159 will have on our consolidated financial statements.

The effects of the differences between Canadian GAAP and U.S. GAAP on the consolidated statement of operations and deficit would be as follows:

(Thousands of U.S. dollars other than share and per share amounts)	Years ended December 31,		
	2006	2005	2004
Net loss under Canadian GAAP	\$ 9,413	\$ 3,773	\$ 5,193
Additional write-down of property and equipment(c)	1,311	—	246
Depletion and depreciation(c)	(35)	(51)	(131)
Marketable securities(b)	19	—	(19)
Net loss under U.S. GAAP	10,708	3,722	5,289
Marketable securities(b)	(128)	147	(278)
Comprehensive net loss under U.S. GAAP	10,836	3,575	5,567
Basic and diluted net loss per share under U.S. GAAP	0.28	0.11	0.17
Shares used in the computation of basic and diluted net loss per share	38,181,808	33,023,412	30,908,065

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After differences discussed above have been adjusted for, the condensed balance sheets under Canadian and U.S. GAAP would be:

(Thousands of U.S. dollars)	December 31, 2006		December 31, 2005		December 31, 2004	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Current assets(b)	\$ 5,194	\$ 5,194	\$ 9,947	\$ 10,094	\$ 11,978	\$ 11,978
Restricted cash	4,339	4,339	2,110	2,110	2,466	2,466
Property and equipment(c)	5,859	4,377	5,813	5,607	704	447
Long-term investments	—	—	1,057	1,057	900	900
	<u>15,392</u>	<u>13,910</u>	<u>18,927</u>	<u>18,868</u>	<u>16,048</u>	<u>15,791</u>
Current liabilities	2,951	2,951	2,435	2,435	1,180	1,180
Asset retirement obligations	1,939	1,939	556	556	155	155
Share capital(d)	23,164	41,567	20,476	38,879	16,518	34,921
Warrants	2,017	2,017	3,502	3,502	2,670	2,670
Contributed surplus	4,284	4,284	1,508	1,508	1,302	1,302
Deficit(b)(c)(d)	(18,963)	(38,848)	(9,550)	(28,140)	(5,777)	(24,418)
Accumulated other comprehensive income (loss)(b)	—	—	—	128	—	(19)
	<u>15,392</u>	<u>13,910</u>	<u>18,927</u>	<u>18,868</u>	<u>16,048</u>	<u>15,791</u>

After differences discussed above have been adjusted for, the condensed statements of deficit and accumulated other comprehensive income (loss) under Canadian and U.S. GAAP would be:

(Thousands of U.S. dollars)	December 31, 2006		December 31, 2005		December 31, 2004	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Deficit, beginning of year	9,550	28,140	5,777	24,418	584	19,129
Net loss	9,413	10,708	3,773	3,722	5,193	5,289
Deficit, end of year	<u>18,963</u>	<u>38,848</u>	<u>9,550</u>	<u>28,140</u>	<u>5,777</u>	<u>24,418</u>
Accumulated other comprehensive income (loss), beginning of year	—	128	—	(19)	—	259
Marketable securities	—	(128)	—	147	—	(278)
Accumulated other comprehensive income (loss), end of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>128</u>	<u>—</u>	<u>(19)</u>

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Interim Consolidated Financial Statements of  
**TRANSATLANTIC PETROLEUM CORP.**  
Three and Six Months Ended June 30, 2007 and 2006

**UNAUDITED**

Interim Consolidated Balance Sheets  
(Unaudited)

(Thousands of U.S. Dollars)

	June 30, 2007	Dec. 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 624	\$ 4,688
Accounts receivable	478	422
Prepaid and other current assets	240	84
	1,342	5,194
Restricted cash (notes 3, 11 and 12)	3,675	4,339
Property and equipment (note 4)	9,729	5,859
	<u>\$ 14,746</u>	<u>\$ 15,392</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,317	\$ 1,990
Loan payable (note 6)	3,000	—
Settlement provision (note 11)	240	961
	4,557	2,951
Asset retirement obligations (note 5)	2,037	1,939
Shareholders' equity		
Share capital (note 7)	23,715	23,164
Warrants (note 7)	1,877	2,017
Contributed surplus (note 7)	4,618	4,284
Deficit	(22,058)	(18,963)
	8,152	10,502
Going concern (note 1)		
Subsequent events (notes 1 and 13)		
Commitments (note 12)		
	<u>\$ 14,746</u>	<u>\$ 15,392</u>

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

*"Brian Bayley"*

Director

*"Michael Winn"*

Director

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**TRANSATLANTIC PETROLEUM CORP.**

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit  
(Unaudited)

(Thousands of U.S. Dollars, except for per share amounts)

	Six Months		Three Months	
	Ended June 30,			
	2007	2006	2007	2006
Revenues				
Oil and gas sales	\$ 430	\$ 1,375	\$ 208	\$ 611
Royalties	(88)	(374)	(42)	(166)
Oil and gas sales, net of royalties	342	1,001	166	445
Expenses				
Lease operating expenses and other production costs	482	1,013	201	480
Depreciation, depletion and accretion	351	549	204	284
General and administrative	1,374	1,474	475	872
International oil and gas activities (note 4)	1,342	910	933	398
Settlement provision (note 11)	(313)	—	(313)	—
Foreign exchange (gain) loss	(1)	(102)	32	(99)
	3,235	3,844	1,532	1,935
Interest and financing expense	399	—	399	—
Interest income	(197)	(284)	(129)	(59)
Net loss and comprehensive loss for the period	3,095	2,559	1,636	1,431
Deficit, beginning of period	18,963	9,550	20,422	10,678
Deficit, end of period	<u>\$22,058</u>	<u>\$12,109</u>	<u>\$22,058</u>	<u>\$12,109</u>
Net loss per share - basic and diluted (note 7)	\$ 0.07	\$ 0.07	\$ 0.04	\$ 0.04

See accompanying notes to consolidated financial statements.

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**TRANSATLANTIC PETROLEUM CORP.**

Interim Consolidated Statements of Cash Flows  
(Unaudited)

(Thousands of U.S. Dollars)

	Six Months		Three Months	
	Ended June 30,			
	2007	2006	2007	2006
Cash provided by (used in)				
Operating activities				
Net loss for the period	\$(3,095)	\$(2,559)	\$(1,636)	\$(1,431)
Items not involving cash				
Depreciation, depletion and accretion	351	549	204	284
Non-cash financing expense	286	—	286	—
Stock-based compensation	295	225	49	225
	(2,163)	(1,785)	(1,097)	(922)
Changes in non-cash working capital	(2,095)	(92)	(1,130)	(853)
	(4,258)	(1,877)	(2,227)	(1,775)
Investing activities				
Property and equipment	(4,123)	(1,870)	(554)	(1,489)
Changes in accounts payable relating to property and equipment	489	65	(1,939)	65
Redemption of short-term investments	—	1,500	—	—
Restricted cash	664	(2,496)	700	(1,946)
	(2,970)	(2,801)	(1,793)	(3,370)
Financing activities				
Exercise of warrants and options	164	159	—	145
Loan proceeds (note 6)	3,000	—	3,000	—
	3,164	159	3,000	145
Change in cash and cash equivalents	(4,064)	(4,519)	(1,020)	(5,000)
Cash and cash equivalents, beginning of period	4,688	7,567	1,644	8,048
Cash and cash equivalents, end of period	\$ 624	\$ 3,048	\$ 624	\$ 3,048
Supplemental cash flow information				
Interest received	\$ 197	\$ 284	\$ 129	\$ 59
Interest paid	113	—	77	—

See accompanying notes to consolidated financial statements.

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**TRANSATLANTIC PETROLEUM CORP.**

Notes to Consolidated Financial Statements - Unaudited

Three and six months ended June 30, 2007 and 2006

(Tabular amounts in 000's of U.S. Dollars unless otherwise noted)

**1. Going Concern**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that TransAtlantic Petroleum Corp. (the "Company") will realize its assets and discharge its liabilities in the normal course of operations.

At June 30, 2007, the Company had cash and cash equivalents of \$624,000, \$3.0 million in current debt, no long term debt and a working capital deficit of \$3.2 million. The Company continued to incur losses during the six months ended June 30, 2007 of \$3.1 million. At December 31, 2006, the Company had cash and cash equivalents of \$4.7 million, no current or long term debt and a working capital balance of \$2.2 million. During the year ended December 31, 2006, the Company incurred a net loss of \$9.4 million.

The Company estimates that it does not have sufficient funds to continue in operation past October 2007. Subsequent to December 31, 2006, the Company has drilled the SGU #96 well for costs totaling approximately \$4.0 million. Although the Company completed this well in June 2007, the Company will require significant immediate funding to continue its exploration, development and operating activities. In April 2007, the Company entered into a U.S. \$3.0 million short-term standby bridge loan from Quest Capital Corp. ("Quest") (see note 10). The Company mortgaged certain of its assets, including the South Gillock property, and pledged 100% of the common stock of its wholly-owned subsidiary, TransAtlantic Petroleum (USA) Corp., as security. At closing, the Company paid Quest a loan fee totaling 132,353 shares of its common stock at a deemed price of \$0.68 per share. In addition, the Company paid Quest an amount equal to 5% of the principal drawn down, payable in our common shares using a formula based on a discount to the five-day volume weighted average trading price. The Company drew down \$1.0 million on the loan on April 16 and issued 64,766 shares to Quest at a deemed issue price of \$0.77 per share. The Company drew down \$1.5 million on the loan on May 9 and issued 102,174 shares to Quest at a deemed issue price of \$0.73 per share. The Company drew down \$500,000 on the loan on June 6 and issued 65,074 shares to Quest at a deemed issue price of \$0.38 per share. On August 10 the Company and Quest increased the loan facility to \$4.0 million, and the Company drew down the additional \$1.0 million and issued 139,456 shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

Management and the Board of Directors continue to explore funding alternatives. Management considers the going concern basis to be appropriate for these financial statements. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported expenses and the balance sheet classifications used.

## **2. Basis of presentation**

The accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries.

The interim consolidated financial statements of the Company have been prepared by managements following the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended December 31, 2006, except as indicated below. Readers are referred to the significant accounting policies as outlined in the notes to the consolidated financial statements for the year ended December 31, 2006. These interim consolidated financial statements contain disclosures which are incremental and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2006. These unaudited interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented.

### **(a) Changes in Accounting Policy**

On January 1, 2007, the Company adopted *CICA Handbook Section 1530, Comprehensive Income*. Comprehensive Income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. There were no such components to be recognized in the comprehensive income for the six month period ended June 30, 2007.

On January 1, 2007, the Company adopted *CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement*. In accordance with this new standard the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. This new standard did not affect the Company's interim consolidated financial statements.

On January 1, 2007, the Company adopted *CICA Handbook Section 3865, Hedges*. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company does not have any hedging relationships. This new standard did not affect the Company's interim consolidated financial statements.

These standards have been adopted retroactively without restatement. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from those estimates and assumptions; however, management believes that such differences would not be material.

Two new Canadian accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008 about the Company's financial instruments as well as its capital and how it is managed.

## **3. Restricted cash**

Restricted cash represents cash placed in escrow accounts or in certificates of deposit that is pledged for the satisfaction of liabilities or performance guarantees. At June 30, 2007, restricted cash includes: \$240,000 in respect of the settlement of Nigerian liabilities (see note 11), \$3.4 million in certificates of deposit supporting guarantees of the Morocco work programs (see note 12) and \$27,000 relates to the certificate of deposit that is a collateral for the Amegy letter of credit in favor of the Oklahoma Tax Commission.

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**4. Property and equipment**

	Cost	Accumulated depreciation and depletion	Net book value
<b>2007</b>			
Crude oil and natural gas properties			
United States	\$15,314	\$ 7,157	\$8,157
Romania	1,572	—	1,572
Furniture, fixtures and other assets	238	238	—
Balance, June 30, 2007	<u>\$17,124</u>	<u>\$ 7,395</u>	<u>\$9,729</u>
<b>2006</b>			
Crude oil and natural gas properties			
United States	\$11,164	\$ 6,877	\$4,287
Romania	1,572	—	1,572
Furniture, fixtures and other assets	238	238	—
Balance, December 31, 2006	<u>\$12,974</u>	<u>\$ 7,115</u>	<u>\$5,859</u>

(a) United States:

During the first and second quarters 2007, the Company drilled the SGU #96 well on its South Gillock property and capitalized approximately \$3.8 million additional costs (2006 - \$300,000) associated with this project. The Company's financial position at the end of the second quarter 2007 has been impacted by expenditures on the SGU #96 well; the Company has incurred costs to date of approximately \$4.1 million. The Company has completed the well and it is currently producing. At June 30, 2007, \$1.8 million (2006 - \$1.7 million) of asset retirement costs are included in property and equipment. No overhead costs were capitalized and future development costs of \$25,000 (2006 - \$25,000), are included in the computations of depreciation and depletion for the six months ended June 30, 2007. Unproved property costs of \$762,000 (2006 - \$894,000) were excluded from the depletion and depreciation calculation, as were \$828,000 in development costs (2006 - \$935,000) related to a non-operated well on the Oswego property. The Oswego well is currently being tested.

(b) Morocco:

As part of the Company's June 2005 award of a reconnaissance license in Morocco, the Company committed to a work program involving the reprocessing of seismic and other technical work over the property. The 2007 work commitment has been completed and the Company's \$120,000 portion of that commitment has been fulfilled. The existing bank guarantee is pending release and the Company is negotiating to convert portions of the license into an exploration permit.

In May 2006, the Company was awarded an exploration permit in Morocco. As its work commitment during the initial three-year term, the Company is required to shoot a 3D survey and drill an exploratory well.

The Company posted \$3.4 million in certificates of deposit pursuant to a guarantee of the work programs in Morocco (see note 12) and this amount (which includes accrued interest on the deposits) is included in restricted cash at June 30, 2007.

(c) Romania:

The Company capitalized \$1.6 million of expenditures related to seismic surveys completed at the end of 2006 in Romania. No further seismic costs have been incurred as of June 30, 2007.

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**Table of Contents****(d) Other countries:**

During the six months ended June 30, 2007, the Company continued to evaluate and expand its initiatives in Morocco, Romania, Turkey and the U.K. North Sea. Approximately \$1.3 million of costs were incurred and expensed towards the pre-acquisition, reconnaissance, evaluation and development of the Company's international oil and gas activities, including those conducted in Morocco and Romania, including technical, professional and administrative costs during the six months ended June 30, 2007(2006 - \$910,000).

**5. Asset retirement obligations**

As part of its development of oil and gas opportunities, the Company incurs asset retirement obligations ("ARO") on its properties. The Company's ARO results from its responsibility to abandon and reclaim its net share of all working interest properties. At June 30, 2007 the net present value of the Company's total ARO is estimated to be \$2.0 million (December 31, 2006 - \$1.9 million), with the undiscounted value being \$2.4 million (December 31, 2006 - \$2.4 million). Payments to settle the obligations are expected to occur continuously over the next four years, with the majority of obligations expected to occur in 2010. An inflation rate of 2% was assumed and a discount rate of 7% was used to calculate the present value of the ARO.

	Six months ended June 30, 2007	Six months ended June 30, 2006
Beginning balance	\$ 1,939	\$ 556
Liabilities incurred	26	—
Accretion expense	72	28
Ending balance	<u>\$ 2,037</u>	<u>\$ 584</u>

**6. Loan payable**

On April 16, 2007, the Company entered into a \$3.0 million short-term standby bridge loan agreement with Quest. The Company mortgaged certain of its assets, including the South Gillock property, and pledged 100% of the common stock of its subsidiary TransAtlantic Petroleum (USA) Corp. as security. At closing, the Company paid Quest a loan fee totaling 132,353 shares of the Company's common shares at a deemed price of \$0.68 per share. In addition, the Company is required to pay Quest an amount equal to 5% of the principal drawn down, payable in the Company's common shares using a formula based on a discount to the five-day volume weighted average trading price. The Company drew down \$1.0 million on the loan on April 16 and issued 64,766 shares to Quest at a deemed issue price of \$0.77 per share. The Company drew down \$1.5 million on the loan on May 9 and issued 102,174 shares to Quest at a deemed issue price of \$0.73 per share. The Company drew down \$500,000 on the loan on June 6 and issued 65,074 shares to Quest at a deemed issue price of \$0.38 per share. The financing fees paid to Quest during the period have been charged to interest expense. Interest is paid monthly in cash. On August 10, 2007, the Company and Quest amended the agreement to increase the loan facility to \$4.0 million under the same terms as the original agreement. The Company drew down the additional \$1.0 million on August 10 and issued 139,456 shares to Quest at a deemed issue price of \$0.58 per share. The loan bears interest at an effective annual rate of 12.68% and must be repaid by November 30, 2007.

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**7. Share capital**

- (a) Authorized  
Unlimited number of common shares, without par value
- (b) Issued  
Common shares:

(In thousands)	Number of Shares	Amount
Balance, December 31, 2006	42,557	\$23,164
Stock issued in connection with loan	364	286
Stock options exercised	185	232
Stock warrants exercised	25	33
Balance, June 30, 2007	43,131	\$23,715

Warrants:

(In thousands)	Number of Shares	Amount
Balance, December 31, 2006	7,976	2,017
Exercised	(25)	(7)
Expired	(500)	(133)
Balance, June 30, 2007	7,451	\$1,877

(c) Option plan

The Company has an Amended and Restated Stock Option Plan (the “Plan”) under which 827,000 common shares were reserved for issuance and 3,410,000 million share purchase options at a weighted average strike price of \$0.93 per share were issued and outstanding at June 30, 2007. All options presently issued under the Plan have a five-year term from date of grant.

The Company granted 1,355,000 stock purchase options on January 10, 2007. All of the options were granted pursuant to the Plan with a five-year term exercisable at \$1.00 per share. The options were issued on two different vesting schedules. As to 405,000 of the options issued, 50% vested immediately and 50% will vest in one year. As to 950,000 of the options issued, 1/3 vested immediately, 1/3 will vest in one year and 1/3 will vest in two years. Based upon these terms, a Black-Scholes pricing model derives a fair value for the grants of approximately \$295,000 recognized as stock-based compensation expense for the six months ended June 30, 2007 (2006 - \$225,000).

The estimated fair value of share options issued during the first quarter 2007 was determined using the Black-Scholes pricing model with the following assumptions:

Option Value Inputs	2007
Risk free interest rate	4.2%
Dividend yield	0%
Expected option life	5 Years
Volatility in the price of the Company’s shares	71%

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### (d) Per share amounts

Basic per common share amounts were calculated using a weighted average number of common shares outstanding for the six and three months ended June 30, 2007 of 42,830,381 and 43,008,951 (2006 – 38,181,808). No adjustments were required to reported earnings or number of shares in computing diluted per share amounts as the net loss would make these shares anti-dilutive.

### (e) Contributed surplus

Balance, December 31, 2006	\$4,284
Increase from stock based compensation	295
Transfer to share capital on option exercise	(94)
Warrants expired	133
Balance, June 30, 2007	<u>\$4,618</u>

## 8. Segment information

As of June 30, 2007, the Company and its subsidiaries operate in one industry segment, composed of three reportable geographic segments, involving the exploration for and the development and production of crude oil and natural gas. Identifiable assets, revenues and net loss in each of its geographic areas are as follows:

June 30, 2007	Identifiable assets (liabilities)	Net Revenues		Net loss	
		Six months	Three Months	Six months	Three months
United States	\$ 8,765	\$ 342	\$ 166	\$1,316	\$ 617
Morocco	3,527	—	—	277	200
Romania	1,932	—	—	663	613
Corporate assets and other	522	—	—	839	206
	<u>\$ 14,746</u>	<u>\$ 342</u>	<u>\$ 166</u>	<u>\$3,095</u>	<u>\$1,636</u>

## 9. Financial instruments

The fair value of the Company's financial instruments at June 30, 2007 comprised of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, loan payable and settlement provision approximate their fair values.

## 10. Related party transactions

In April 2007, the Company entered into a loan agreement with Quest Capital Corp. ("Quest") (note 6). The Company and Quest have two directors in common.

## 11. Settlement provision

In conjunction with the sale of the Company's Nigerian subsidiaries effective June 20, 2005, the Company deposited \$1.76 million into an escrow account to address claims relating to prior operations in Nigeria. Pursuant to an agreement reached in 2007, a net amount of \$306,000 of the escrow amount was allocated and recently paid with respect to years

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1998 through 2004. In April 2007, \$415,000 out of the escrow account was released to the Company. Accordingly in the second quarter 2007, the Company recorded \$102,000 of interest income (on amounts held in escrow since 2005) and a reduction in the settlement provision of \$313,000. The remaining potential liability to the Company includes taxes owed for the period January through June 2005, and the Company expects the remaining escrow amount of \$240,000 to be sufficient to cover any potential liabilities.

### 12. Commitments

- (a) In May 2006, the Company was awarded the Tselfat exploration permit in Morocco. To retain the license past the initial three-year term, the Company is required to shoot a 3D survey and drill an exploratory well. The Company posted a \$3.0 million bank guarantee in support of this work commitment. The bank guarantee is reduced annually in the third quarter based on work performed. In the event the Company fails to perform the work commitment, the bank guarantee (or the remaining portion thereof) will be forfeited. The Company also had a \$120,000 work commitment in 2007 (which has now been completed) with respect to its Guercif-Beni Znassen reconnaissance license in Morocco, which is supported by a similar bank guarantee.
- (b) On December 13, 2005, the Company amended the lease term for its office space in Dallas, Texas. The lease expires on January 31, 2011. The Company is committed to the following aggregate annual amounts:

2007 July through December	\$ 40
2008	81
2009	83
2010	85
2011	7
	\$296

### 13. Subsequent Events

On August 10, 2007, the Company and Quest amended their standby bridge loan agreement to increase the loan facility from \$3.0 million to \$4.0 million. The Company drew down the additional \$1.0 million on August 10 and issued 139,456 shares to Quest at a deemed issue price of \$0.58 per share.

On August 27, 2007, the Company announced that it has reached an agreement to farmout 50% of its interest in the Tselfat exploration permit to Sphere Petroleum QSC. In exchange for an option to acquire 50% of the Company's interest in the Tselfat permit, Sphere will fund the costs to acquire a 110 square kilometer 3D seismic survey to be shot over the Haricha field and northern portion of the Bou Draa field in early 2008 and will also fund the cost of additional geological studies. It is estimated the 3D survey and the studies will cost approximately \$4.5 million over the next year. Upon its exercise of the option, Sphere will (i) fund the drilling and testing of an exploratory well; and (ii) replace the Company's bank guarantee deposited with the Moroccan government. The exploratory well will be drilled to a depth of at least 2,000 meters (6,500 feet) to test a previously undrilled subthrust prospect. The Company will remain as operator of the permit through this exploration phase which extends to May 2009.

On September 27, 2007, the Company announced that it received final government approval of the three production licenses in Romania which were awarded to the Company in 2006.

### 14. Reconciliation to Accounting Principles Generally Accepted in the United States

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's accounting policies do not differ materially from accounting principles generally accepted in the United States ("U.S. GAAP") except for the following:

(a) Comprehensive Income

Comprehensive income is recognized and measured under U.S. GAAP pursuant to SFAS No. 130, "Reporting Comprehensive Income". Under U.S. GAAP, comprehensive income is defined as all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of two components, net income (loss) and other comprehensive income. Other comprehensive income includes the unrealized holding gains and losses on the available-for-sale securities.

(b) Marketable Securities

Under accounting principles generally accepted in Canada, marketable securities are stated at the lower of cost or market. Under U.S. GAAP, investments classified as available for sale securities are recorded at market value and the unrealized gains and losses are recorded as comprehensive income and accumulated other comprehensive income within the shareholder's equity section of the balance sheet unless impairments are considered other than temporary.

(c) Oil and Gas Properties

Under Canadian GAAP the ceiling test is performed by comparing the carrying value of the cost centre based on the sum of the undiscounted cash flows expected from the cost center's use and eventual disposition. If the carrying value is unrecoverable, the cost centre is written down to its fair value using the expected present value approach of proved plus probable reserves using future prices. Under U.S. GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved oil and gas reserves using a discount factor of 10 percent. Prices used in the U.S. GAAP ceiling tests performed for this reconciliation were those in effect at the applicable period-end. There was no material difference arising out of the differences in prices. At June 30, 2007 and 2006, the Company recognized a U.S. GAAP ceiling test write down of \$2,880 and \$nil respectively (all impairment amounts are in thousands of dollars before and after tax). Depletion expense for the six months ended June 30, 2007 and 2006 for U.S. GAAP is reduced by \$111 and \$16 thousand before and after tax respectively

(d) Deficit Elimination

As a result of the reorganization of the capital structure which occurred in 2003, the deficit of TransAtlantic Petroleum Corp. of \$18,403 thousand was eliminated. Elimination of the deficit would not be permitted under U.S. GAAP.

(e) Stock-based Compensation

Under Canadian GAAP, the Company follows the fair value method of accounting for stock based compensation. The FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaced SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized as an expense in the financial statements using a fair value-based measurement method over the periods that the awards vest. We adopted SFAS No. 123R as of January 1, 2006, and there was no material impact.

(f) Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that we recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of deficit. We adopted FIN 48 as of January 1, 2007 and there was no material impact.

The effects of the differences between Canadian GAAP and U.S. GAAP on the consolidated statement of operations and deficit would be as follows:

(Thousands of U.S. dollars other than share and per share amounts)	Six months ended June 30,	
	2007	2006
Net loss under Canadian GAAP	\$ 3,095	\$ 2,559
Additional write-down of property and equipment(c)	2,880	—
Depletion and depreciation(c)	(111)	(16)
Net loss under U.S. GAAP	5,864	2,543
Marketable securities(b)	—	(110)
Comprehensive net loss under U.S. GAAP	5,864	2,433
Basic and diluted net loss per share under U.S. GAAP	0.14	0.07
Shares used in the computation of basic and diluted net loss per share	42,830,381	38,181,808

After differences discussed above have been adjusted for, the condensed balance sheets under Canadian and U.S. GAAP would be:

(Thousands of U.S. dollars)	June 30, 2007		December 31, 2006	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Current assets(b)	\$ 1,342	\$ 1,342	\$ 5,194	\$ 5,194
Restricted cash	3,675	3,675	4,339	4,339
Property and equipment(c)	9,729	5,478	5,859	4,377
	14,746	10,495	15,392	13,910
Current liabilities	4,557	4,557	2,951	2,951
Asset retirement obligations	2,037	2,037	1,939	1,939
Share capital(d)	23,715	42,118	23,164	41,567
Warrants	1,877	1,877	2,017	2,017
Contributed surplus	4,618	4,618	4,284	4,284
Deficit(b)(c)(d)	(22,058)	(44,712)	(18,963)	(38,848)
	14,746	10,495	15,392	13,910

After differences discussed above have been adjusted for, the condensed statements of deficit and accumulated other comprehensive income (loss) under Canadian and U.S. GAAP would be:

(Thousands of U.S. dollars)	June 30, 2007		December 31, 2006	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Deficit, beginning of year	18,963	38,848	9,550	28,140
Net loss	3,095	5,864	9,413	10,708
Deficit, end of year	22,058	44,712	18,963	38,848
Accumulated other comprehensive income (loss), beginning of year	—	—	—	128
Marketable securities	—	—	—	(128)
Accumulated other comprehensive income (loss), end of year	—	—	—	—

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**Signatures**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this registration statement on its behalf.

TransAtlantic Petroleum Corp.

By: /s/ Hilda Kouvelis

Hilda Kouvelis

Chief Financial Officer

Date: October 5, 2007

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**INDEX TO EXHIBITS**

<b>Exhibit Numbers</b>	<b>EXHIBITS</b>
1.1	Certificate and Articles of Continuance dated June 10, 1997
1.2	Certificate and Articles of Amendment dated December 2, 1998
1.3	Certificate and Articles of Amalgamation dated January 1, 1999
1.4	By-law No. 1 dated June 2, 1997
4.1	Executive Employment Agreement dated effective July 1, 2005 by and between TransAtlantic Petroleum Corp. and Scott C. Larsen
4.2	Management Agreement dated effective April 1, 2006 by and between TransAtlantic Worldwide, Ltd. and Charles Management, Inc.
4.3	Participating Interest Agreement dated effective July 11, 2005 by and among TransAtlantic Worldwide Ltd., TransAtlantic Petroleum Corp. and Scott C. Larsen
4.4	Amended and Restated Stock Option Plan (2006)
4.5	Warrant Indenture dated November 17, 2005 by and between TransAtlantic Petroleum Corp. and Computershare Trust Company of Canada
4.6	Warrant Indenture dated December 1, 2006 by and between TransAtlantic Petroleum Corp. and Computershare Trust Company of Canada
4.7	Credit Agreement dated April 16, 2007 by and between TransAtlantic Petroleum Corp. and Quest Capital Corp.
4.8	First Amending Agreement dated August 10, 2007 by and between TransAtlantic Petroleum Corp. and Quest Capital Corp.
15.1	Consent of KPMG LLP
15.2	Consent of Netherland, Sewell & Associates, Inc.

**Alberta**

GOVERNMENT OF ALBERTA

**CORPORATE ACCESS NUMBER**

20741756

**BUSINESS CORPORATIONS ACT**

**CERTIFICATE  
OF  
CONTINUANCE**

**PROFCO RESOURCES LTD.**

CONTINUED FROM BRITISH COLUMBIA TO ALBERTA ON  
JUNE 10, 1997.

*Alberta*

REGISTRIES

ARTICLES OF CONTINUANCE

1. NAME OF CORPORATION.

PROFCO RESOURCES LTD.

2. CORPORATE ACCESS NUMBER.

20741 756

3. THE CLASSES AND ANY MAXIMUM NUMBER OF SHARES THAT THE CORPORATION IS AUTHORIZED TO ISSUE.

THE CORPORATION IS AUTHORIZED TO ISSUE AN UNLIMITED NUMBER OF ONE CLASS OF SHARES DESIGNATED AS COMMON SHARES.

4. RESTRICTIONS IF ANY ON SHARE TRANSFERS.

NONE.

5. NUMBER (OR MINIMUM OR MAXIMUM NUMBER) OF DIRECTORS.

A MINIMUM OF 3 AND A MAXIMUM OF 9, THE NUMBER WITHIN SUCH RANGE TO BE FDCEED OR CHANGED BY RESOLUTION OF THE SHAREHOLDERS OR THE DIRECTORS OF THE CORPORATION.

6. RESTRICTIONS IF ANY ON BUSINESSES THE CORPORATION MAY CARRY ON.

NONE.

7. IF CHANGE OF NAME EFFECTED, PREVIOUS NAME.

N/A

8. DETAILS OF INCORPORATION.

INCORPORATED UNDER THE COMPANY ACT (BRITISH COLUMBIA) ON OCTOBER 1, 1985 UNDER THE NAME "PROFCO RESOURCES LTD."

9. OTHER PROVISIONS IF ANY.

THE SCHEDULE 'I' IS INCORPORATED INTO AND FORMS PART OF THIS FORM.

7. DATE

June 4<sup>th</sup>, 1997

SIGNATURE

RICHARD K. JAGGARD

CORPORATE SECRETARY

FOR DEPARTMENTAL USE ONLY

FILED

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**SCHEDULE "I"**

**TO THE ARTICLES OF CONTINUANCE  
OF PROFCO RESOURCES LTD.**

1. Without limiting the borrowing powers of the Corporation as set forth in the *Business Corporations Act (Alberta)*, the directors of the Corporation may from time to time, without authorization of the shareholders,
  - (a) borrow money on the credit of the Corporation;
  - (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantees of the Corporation, whether secured or unsecured;
  - (c) subject to the *Business Corporations Act (Alberta)*, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
  - (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.

Nothing in this clause limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

2. Subject to the *Business Corporations Act (Alberta)*, the directors may, between annual general meetings of shareholders, appoint one or more additional directors of the Corporation to serve until the next annual general meeting of shareholders.

**FILED**

**JUN 10 1997**

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# BRITISH COLUMBIA

May 2, 1997

DuMoulin Black  
10th Floor, 595 Howe Street  
Vancouver BC V6C 2T5

Dear W. David Black:

Re: PROFCO RESOURCES LTD.. Number 298500

I hereby authorize the continuation of the above company to the jurisdiction of the *Alberta Business Corporations Act*.

My consent is valid for six months, ending November 2, 1997.

Yours truly,

John S. Powell  
Registrar of Companies

Enquiries: Dianne Mullin: (604) 356-8624  
Barb Morrison: (604) 356-8625  
Fax: (604) 356-6422

Ministry of  
Finance and  
Corporate Relations

Corporate and Personal  
Property Registries

Mailing Address:  
PO Box 9431 Stn Prov Govt  
Victoria BC V8W 9V3

Location:  
Second Floor  
940 Blanshard Street  
Victoria

CORPORATE ACCESS NUMBER: 207417569

# **Alberta**

**BUSINESS CORPORATIONS ACT**

## **CERTIFICATE OF AMENDMENT**

**PROFCO RESOURCES LTD.  
CHANGED ITS NAME TO TRANSATLANTIC PETROLEUM CORP.  
ON 1998/12/02.**

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ALBERTA CONSUMER AND CORPORATE AFFAIRS  
BUSINESS CORPORATIONS ACT  
(SECTION 27 OR 171)

ARTICLES OF AMENDMENT  
FORM 4

- |                        |                             |
|------------------------|-----------------------------|
| 1. NAME OF CORPORATION | 2. CORPORATE ACCESS NUMBER: |
| PROFCO RESOURCES LTD.  | 207417569                   |

3. THE ARTICLES OF THE ABOVE-NAMED CORPORATION ARE AMENDED AS FOLLOWS:

Pursuant to Section 1671(a) of the *Business Corporations Act* (Alberta), Item 1 of the Articles of the Corporation be and is hereby amended to read:

1. Name of Corporation

**TRANSATLANTIC PETROLEUM CORP.”**

DATED this 2nd day of December, 1998.

SIGNATURE: R. JAGGARD  
Position Held: Vice President, Finance

CORPORATE ACCESS NUMBER: 208127522

**ALBERTA**

**BUSINESS CORPORATIONS ACT**

**CERTIFICATE  
OF  
AMALGAMATION**

**TRANSATLANTIC PETROLEUM CORP.**  
IS THE RESULT OF AN AMALGAMATION FILED ON 1999/01/01.

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ALBERTA CONSUMER AND CORPORATE AFFAIRS  
BUSINESS CORPORATIONS ACT  
(SECTION 179)

**ARTICLES OF AMALGAMATION  
FORM 9**

- |   |   |
|---|---|
| 1. NAME OF AMALGAMATED CORPORATION<br>Transatlantic Petroleum Corp.   | 2. CORPORATE ACCESS NO.<br>208127522              |
| 3. THE CLASSES AND ANY MAXIMUM NUMBER OF SHARES THAT THE CORPORATION IS AUTHORIZED TO ISSUE<br>The Corporation is authorized to issue an unlimited number of one class of shares designated as common shares. |   |
| 4. RESTRICTIONS IF ANY ON SHARE TRANSFERS<br>None.  |   |
| 5. NUMBER (OR MINIMUM AND MAXIMUM NUMBER) OF DIRECTORS<br>A minimum of 3 and a maximum of 9.  |   |
| 6. RESTRICTIONS IF ANY ON BUSINESSES THE CORPORATION MAY CARRY ON<br>None.  |   |
| 7. OTHER PROVISIONS IF ANY<br>The attached Schedule A is incorporated into and forms a part of this Form 9.   |   |
| 8. NAME OF AMALGAMATING CORPORATIONS<br>Transatlantic Petroleum Corp.<br>GHP Exploration Corporation  | 9. CORPORATE ACCESS NO.<br>207417569<br>208118257 |

DATED this 31st day of December, 1998.

Signature: John Andriuk  
Position Held: Director

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**SCHEDULE A**  
**TO THE ARTICLES OF AMALGAMATION OF**  
**TRANSATLANTIC PETROLEUM CORP.**  
(“the Corporation”)

- I. Without limiting the borrowing powers of the Corporation as set forth in the *Business Corporations Act (Alberta)*, the directors may from time to time, without the authorization of the shareholders,
- (a) borrow money on the credit of the Corporation;
  - (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantees of the Corporation, whether secured or unsecured;
  - (c) subject to the Business Corporations Act (Alberta), give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
  - (d) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.
- Nothing in this clause limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.
2. Subject to the Business Corporations Act (Alberta), the board of directors may, between annual general meetings of shareholders, appoint one or more additional directors of the Corporation to serve until the next annual general meeting of shareholders.
3. The number of directors of the Corporation shall be fixed or changed by resolution of the shareholders or the directors provided that the number of directors may not be less than the minimum number nor more than the maximum number of directors set out in the articles.

**BY-LAW NO. 1**

A By-Law relating generally to the transaction of the business and affairs of **PROFCO RESOURCES LTD.** now known as **TRANSATLANTIC PETROLEUM CORP.**

**CONTENTS**

<b>SECTION</b>	<b>SUBJECT</b>
One	Interpretation
Two	Business of the Corporation
Three	Directors
Four	Committees
Five	Protection of Directors and Officers
Six	Shares
Seven	Dividends
Eight	Meetings of Shareholders
Nine	Notices
Ten	Effective Date and Repeal

IT IS HEREBY ENACTED as By-law No. 1 of **PROFCO RESOURCES LTD.** (hereinafter called the “Corporation”) as follows:

**SECTION ONE**  
**INTERPRETATION**

**1.01 Definitions**

In the by-laws of the Corporation, unless the context otherwise requires:

“**Act**” means the Business Corporations Act of Alberta, and any statute that may be substituted therefore, as from time to time amended;

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**“appoint”** includes “elect” and vice versa;

**“articles”** means the articles attached to the Certificate of Continuance of the Corporation as from time to time amended or restated;

**“board”** means the board of directors of the Corporation;

**“by-laws”** means this by-law and all other by-laws of the Corporation from time to time in force and effect;

**“meeting of shareholders”** means any meeting of shareholders, including any meeting of one or more classes or series of shareholders;

**“recorded address”** means, in the case of a shareholder, his address as recorded in the securities register; in the case of joint shareholders, the address appearing in the securities register in respect of such joint holding or the first address so appearing if there are more than one; and, in the case of a director, officer, auditor or member of a committee of the board, his latest address as recorded in the records of the Corporation;

**“signing officer”** means, in relation to any instrument, any person authorized to sign the same on behalf of the Corporation by Section 2.03 or by a resolution passed pursuant thereto.

Save as aforesaid, words and expressions defined in the Act have the same meanings when used herein: and words importing the singular number include the plural and vice versa; words importing gender include the masculine, feminine and neuter genders; and words importing persons include individuals, bodies corporate, partnerships, trusts and unincorporated organizations.

#### **1.02 Conflict with the Act, the Articles or any Unanimous Shareholder Agreement**

To the extent of any conflict between the provisions of the by-laws and the provisions of the Act, the articles or any unanimous shareholder agreement relating to the Corporation, the provisions of the Act, the articles or the unanimous shareholder agreement shall govern.

#### **1.03 Headings and Sections**

The headings used throughout the by-laws are inserted for convenience of reference only and are not to be used as an aid in the interpretation of the by-laws. “Section” followed by a number means or refers to the specified section of this by-law.

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#### **1.04 Invalidity of any Provision of By-laws**

The invalidity or unenforceability of any provision of the by-laws shall not affect the validity or enforceability of the remaining provisions of the by-laws.

### **SECTION TWO BUSINESS OF THE CORPORATION**

#### **2.01 Corporate Seal**

The corporate seal of the Corporation, if any, shall be in such form as the board may from time to time by resolution approve.

#### **2.02 Financial Year**

The financial year of the Corporation shall end on such date in each year as the board may from time to time by resolution determine.

#### **2.03 Execution of Instruments**

Deeds, transfers, assignments, contracts, obligations, certificates and other instruments may be signed on behalf of the Corporation by two persons, one of whom holds the office of chairman of the board, president, vice-president or director and the other of whom holds one of the said offices or the office of secretary, treasurer, assistant secretary or assistant treasurer or any other office created by by-law or by resolution of the board; provided that if the Corporation only has one director, that director alone may sign any instruments on behalf of the Corporation. In addition, the board may from time to time direct the manner in which and the person or persons by whom any instrument or instruments may or shall be signed. Any signing officer may affix the corporate seal to any instrument requiring the same.

#### **2.04 Banking Arrangements**

The banking business of the Corporation including, without limitation, the borrowing of money and the giving of security therefore, shall be transacted with such banks, trust companies or other bodies corporate or other persons as may from time to time be authorized by the board. Such banking business or any part thereof shall be transacted under such agreements, instructions and delegations of powers as the board may from time to time prescribe or authorize.

#### **2.05 Voting Rights in Other Bodies Corporate**

The signing officers may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments, certificates or other evidence shall be in favour of such person or persons as may be determined by the

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persons executing such proxies or arranging for the issuance of voting certificates or such other evidence of the right to exercise such voting rights. In addition, the board or, failing the board, the signing officers may from time to time direct the manner in which and the person or persons by whom any particular voting rights or class of voting rights may or shall be exercised.

#### **2.06 Insider Trading Reports and Other Filings**

Any one officer or director of the Corporation may execute and file on behalf of the Corporation insider trading reports and other filings of any nature whatsoever required under applicable corporate or securities laws.

#### **2.07 Divisions**

The board may from time to time cause the business and operations of the Corporation or any part thereof to be divided into one or more divisions upon such basis, including without limitation, types of business or operations, geographical territories, product lines or goods or services, as the board may consider appropriate in each case. From time to time the board may authorize upon such basis as may be considered appropriate in each case:

- (a) the designation of any such division by, and the carrying on of the business and operations of any such division under, a name other than the name of the Corporation; provided that the Corporation shall set out its name in legible characters in all contracts, invoices, negotiable instruments and orders for goods or services issued or made by or on behalf of the Corporation; and
- (b) the appointment of officers for any such division and the determination of their powers and duties, provided that any such officers shall not, as such, be officers of the Corporation.

### **SECTION THREE DIRECTORS**

#### **3.01 Number of Directors**

If the articles provide for a maximum number and a minimum number of directors, unless otherwise provided in the articles, the number of directors of the Corporation shall be determined from time to time by ordinary resolution of the shareholders or, in the absence of such resolution, by resolution of the directors.

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### 3.02 Calling and Notice of Meetings

Meetings of the board shall be called and held at such time and at such place as the board, the chairman of the board, the president or any two directors may determine, and the secretary or any other officer shall give notice of meetings when directed or authorized by such persons. Notice of each meeting of the board shall be given to each director not less than forty-eight hours before the time when the meeting is to be held, provided that, if a quorum of directors is present, the board may without notice hold a meeting immediately following an annual meeting of shareholders. Notice of a meeting of the board may be given verbally, in writing or by telephone, telegraph, facsimile transmission or any other means of communication. A notice of a meeting of directors need not specify the purpose of or the business to be transacted at the meeting, except where required by the Act. Notwithstanding the foregoing, the board may from time to time fix a day or days in any month or months for regular meetings of the board at a place and hour to be named, in which case, provided that a copy of any such resolution is sent to each director forthwith after being passed and forthwith after each director's appointment, no other notice shall be required for any such regular meeting except where the Act requires specification of the purpose or the business to be transacted thereat.

### 3.03 Place of Meetings

Meetings of the board may be held at any place in or outside Alberta. A director who attends a meeting of directors, in person or by telephone, is deemed to have consented to the location of the meeting except when he attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully held.

### 3.04 Meetings by Telephone

With the consent of the chairman of the meeting or a majority of the directors present at the meeting, a director may participate in a meeting of the board or of a committee of the board by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other. A director participating in such a meeting in such manner shall be considered present at the meeting and at the place of the meeting.

### 3.05 Quorum

The quorum for the transaction of business at any meeting of the board shall consist of two directors or such greater or lesser number of directors as the board may from time to time determine, provided that, if the board consists of only one director, the quorum for the transaction of business at any meeting of the board shall consist of one director.

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### **3.06 Chairman**

The chairman of any meeting of the board shall be the director present and willing to so act at the meeting who is the first mentioned of the following officers as have been appointed: chairman of the board, president or a vice-president (in order of seniority). If no such officer is present and willing to act, the directors present shall choose one of their number to be chairman.

### **3.07 Action by the Board**

At all meetings of the board every question shall be decided by a majority of the votes cast on the question. In case of an equality of votes the chairman of the meeting shall be entitled to a second or casting vote. The powers of the board may be exercised by resolution passed at a meeting at which a quorum is present or by resolution in writing signed by all the directors who would be entitled to vote on that resolution at a meeting of the board. Resolutions in writing may be signed in counterparts.

### **3.08 Adjourned Meeting**

Any meeting of directors may be adjourned from time to time by the chairman of the meeting, with the consent of the meeting, to a fixed time and place. The adjourned meeting shall be duly constituted if a quorum is present and if it is held in accordance with the terms of the adjournment. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have terminated forthwith after its adjournment.

### **3.09 Remuneration and Expenses**

The directors shall be paid such remuneration for their services as the board may from time to time determine. The directors shall also be entitled to be reimbursed for reasonable traveling and other expenses properly incurred by them in attending meetings of the board or any committee thereof. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving remuneration therefore.

### **3.10 Officers**

The board from time to time may appoint one or more officers of the Corporation and, without prejudice to rights under any employment contract, may remove any officer of the Corporation. The powers and duties of each officer of the Corporation shall be those determined from time to time by the board and, in the absence of such determination, shall be those usually incidental to the office held.

### **3.11 Agents and Attorneys**

The board shall have the power from time to time to appoint agents or attorneys for the Corporation in or outside Canada with such powers of management or otherwise (including the power to sub-delegate) as may be thought fit.

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## **SECTION FOUR COMMITTEES**

### **4.01 Transaction of Business**

The powers of any committee of directors may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all the members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. At all meetings of committees every question shall be decided by a majority of the votes cast on the question. In case of an equality of votes the chairman of the meeting shall be entitled to a second or casting vote. Resolutions in writing may be signed in counterparts.

### **4.02 Procedure**

Unless otherwise determined by the board, a quorum for meetings of any committee shall be a majority of its members, each committee shall have the power to appoint its chairman and the rules for calling, holding, conducting and adjourning meetings of the committee shall be the same as those governing the board. Each member of a committee shall serve during the pleasure of the board of directors and, in any event, only so long as he shall be a director. The directors may fill vacancies in a committee by appointment from among their members. Provided that a quorum is maintained, the committee may continue to exercise its powers notwithstanding any vacancy among its members.

## **SECTION FIVE PROTECTION OF DIRECTORS AND OFFICERS**

### **5.01 Limitation of Liability**

No director or officer for the time being of the Corporation shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee, or for joining in any receipt or act for conformity, or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired by the Corporation or for or on behalf of the Corporation or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Corporation shall be placed or invested, or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, from or corporation including any person, from or corporation with whom or with which any moneys, securities or effects shall be lodged or deposited. or for any loss, conversion, misapplication or misappropriation of or any damage resulting from any dealings with any moneys, securities or other assets of or belonging to the Corporation or for any other loss, damage or misfortune whatsoever which may happen in the execution of the duties

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of his respective office or trust or in relation thereto unless the same shall happen by or through his failure to exercise the powers and to discharge the duties of his office honestly, in good faith and with a view to the best interests of the Corporation and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### **5.02 Indemnity**

The Corporation shall, to the maximum extent permitted under the Act, indemnify a director or officer, a former director or officer, and a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and legal representatives, against all costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or such body corporate, including (without limitation) any such action by or on behalf of the Corporation or such body corporate to procure a judgment in its favour, and the Corporation shall use its reasonable best efforts to obtain any approval or approvals necessary for such indemnification.

### **SECTION SIX SHARES**

#### **6.01 Non-Recognition of Trusts**

Subject to the provisions of the Act, the Corporation may treat as the absolute owner of any share the person in whose name the share is registered in the securities register as if that person had full legal capacity and authority to exercise all rights of ownership, irrespective of any indication to the contrary through knowledge or notice or description in the Corporation's records or on the share certificate.

#### **6.02 Joint Shareholders**

If two or more persons are registered as joint holders of any share:

- (a) the Corporation shall record only one address on its books for such joint holders;
- (b) the address of such joint holders for all purposes with respect to the Corporation shall be their recorded address; and
- (c) any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.

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### **6.03 Lien for Indebtedness**

If the articles provide that the Corporation has a lien on any shares registered in the name of a shareholder or his legal representative for a debt of that shareholder to the Corporation, such lien may be enforced, subject to the articles and to any unanimous shareholder agreement, by the sale of the shares thereby affected or by any other action, suit, remedy or proceeding authorized or permitted by law or by equity and, pending such enforcement, the Corporation may refuse to register a transfer of the whole or any part of such shares.

## **SECTION SEVEN DIVIDENDS**

### **7.01 Dividend Cheques**

A dividend payable in cash shall be paid by cheque of the Corporation or of any dividend paying agent appointed by the board, to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such registered holder at his recorded address, unless such holder otherwise directs and the Corporation agrees to follow such direction. In the case of joint holders the cheque shall, unless such joint holders otherwise direct and the Corporation agrees to follow such direction, be made payable to the order of all of such joint holders and mailed to them at their recorded address. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

### **7.02 Non-receipt of Cheques**

In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the board may from time to time prescribe, whether generally or in any particular case.

### **7.03 Unclaimed Dividends**

Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

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## SECTION EIGHT MEETINGS OF SHAREHOLDERS

### 8.01 Chairman, Secretary and Scrutineers

The chairman of any meeting of shareholders, who need not be a shareholder of the Corporation, shall be the first mentioned of the following officers as has been appointed and is present and is willing to so act at the meeting: chairman of the board, president or a vice-president (in order of seniority). If no such officer is present and willing to act as chairman within fifteen minutes from the time fixed for holding the meeting, the persons present and entitled to vote shall choose one of their number to be chairman. The chairman shall conduct the proceedings at the meeting in all respects and his decision in any matter or thing, including, but without in any way limiting the generality of the foregoing, any question regarding the validity or invalidity of any instruments of proxy and any question as to the admission or rejection of a vote, shall be conclusive and binding upon the shareholders. The secretary of any meeting of shareholders shall be the secretary of the Corporation, provided that, if the Corporation does not have a secretary or if the secretary of the Corporation is absent, the chairman shall appoint some person, who need not be a shareholder, to act as secretary of the meeting. The board may from time to time appoint in advance of any meeting of shareholders one or more persons to act as scrutineers at such meeting and, in the absence of such appointment, the chairman may appoint one or more persons to act as scrutineers at any meeting of shareholders. Scrutineers so appointed may, but need not be, shareholders, directors, officers or employees of the Corporation.

### 8.02 Persons Entitled to be Present

The only persons entitled to be present at a meeting of shareholders shall be:

- (a) those entitled to vote at such meeting;
- (b) the directors and auditors of the Corporation;
- (c) others who, although not entitled to vote, are entitled or required under any provision of the Act, the articles or the by-laws to be present at the meeting;
- (d) legal counsel to the Corporation when invited by the Corporation to attend the meeting; and
- (e) any other person on the invitation of the chairman or with the consent of the meeting.

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### 8.03 Quorum

A quorum for the transaction of business at any meeting of shareholders shall be at least two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxy or representative for an absent shareholder so entitled, and representing in the aggregate not less than 10% of the outstanding shares of the Corporation carrying voting rights at the meeting, provided that, if there should be only one shareholder of the Corporation entitled to vote at any meeting of shareholders, the quorum for the transaction of business at a meeting of shareholders shall consist of the one shareholder.

### 8.04 Representatives

The authority of an individual to represent a body corporate or association at a meeting of shareholders of the Corporation shall be established by depositing with the Corporation a certified copy of the resolution of the directors or governing body of the body corporate or association, as the case may be, granting such authority, or in such other manner as may be satisfactory to the chairman of the meeting.

### 8.05 Action by Shareholders

The shareholders shall act by ordinary resolution unless otherwise required by the Act, articles, by-laws or any unanimous shareholders agreement. In case of an equality of votes either upon a show of hands or upon a poll, the chairman of the meeting shall be entitled to a second or casting vote.

### 8.06 Show of Hands

Upon a show of hands every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the shareholders upon the said question.

### 8.07 Ballots

A ballot required or demanded shall be taken in such manner as the chairman shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled, in respect of the shares which he is entitled to vote at the meeting upon the question, to that number of votes provided by the Act or the articles, and the result of the ballot so taken shall be the decision of the shareholders upon the said question.

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#### **8.08 Meetings by Telephone**

With the consent of the chairman of the meeting or the consent (as evidenced by a resolution) of the persons present and entitled to vote at the meeting, a shareholder or any other person entitled to attend a meeting of shareholders may participate in the meeting by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other, and a person participating in such a meeting by those means shall be considered present at the meeting and at the place of the meeting.

### **SECTION NINE NOTICES**

#### **9.01 Omissions and Errors**

The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

#### **9.02 Persons Entitled by Death or Operation of Law**

Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever shall become entitled to any share, shall be bound by every notice in respect of such share which shall have been duly given to the shareholder from whom he derives his title to such share prior to his name and address being entered on the securities register (whether such notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing to the Corporation the proof of authority or evidence of his entitlement prescribed by the Act.

### **SECTION TEN EFFECTIVE DATE AND REPEAL**

#### **10.01 Effective Date**

This by-law shall come into force upon the date of continuance of the Corporation under the Act.

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#### 10.02 Repeal

All previous by-laws (including without limitation the Articles of the Corporation under the Company Act of British Columbia) of the Corporation are repealed as of the coming into force of this by-law. Such repeal shall not affect the previous operation of any by-law so repealed or affect the validity of any act done or right, privilege, obligation or liability acquired or incurred under, or the validity of any contract or agreement made pursuant to, or the validity of any articles (as defined in the Act) or predecessor charter documents of the Corporation obtained pursuant to, any such by-law prior to its repeal. All officers and persons acting under any such by-law so repealed shall continue to act as if appointed under the provisions of this by-law and all resolutions of the shareholders, the board or a committee of the board with continuing effect passed under any repealed by-law shall continue to be good and valid except to the extent inconsistent with this by-law and until amended or repealed.

MADE by the board the 23<sup>rd</sup> day of May, 1997.

\_\_\_\_\_  
/s/ John J. Fleming

Chairman of the Board

CONFIRMED by the shareholders in accordance with the Act the 2<sup>nd</sup> day of June, 1997.

\_\_\_\_\_  
/s/ John J. Fleming

Chairman of the Board

## EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT made effective as of the 1st day of July 2005.

BETWEEN:

**TRANSATLANTIC PETROLEUM CORP.**, a corporation incorporated under the laws of the Province of Alberta, Canada with registered offices in the City of Calgary, in the Province of Alberta (the "**Corporation**")

- and -

**SCOTT C. LARSEN**, an individual resident in the City of Dallas, in the State of Texas, U.S.A. (the "**Executive**")

**WHEREAS** the Executive is the President and Chief Executive Officer of the Corporation and has duties and responsibilities in respect of a number of subsidiaries, affiliates and associates of the Corporation;

**AND WHEREAS** the Corporation and the Executive wish to clarify the terms of the Executive's employment with the Corporation;

**NOW THEREFORE, THIS AGREEMENT WITNESSETH** that in consideration of the mutual covenants herein contained, the parties agree as follows:

**ARTICLE 1  
DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

In this Agreement, unless there is something in the context or subject matter inconsistent therewith, the following defined terms shall have the meanings hereinafter set forth:

- (a) "**Annual Salary**" shall have the meaning set out in Section 3.1.
- (b) "**Affiliate**", "**Associate**" and "**Subsidiary**" shall have the meanings set out in the *Business Corporations Act* (Alberta).
- (c) "**Board of Directors**" shall mean the Board of Directors of the Corporation.
- (d) "**Cause**" shall be deemed to exist if:
  - (i) the Corporation determines in good faith and following a reasonable investigation that the Executive has committed fraud, theft or embezzlement from the Corporation;

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- (ii) the Executive pleads guilty or nolo contendere to or is convicted of any felony or other crime involving moral turpitude, fraud, theft or embezzlement;
  - (iii) the Executive substantially fails to perform his duties according to the terms of his employment (other than any such failure resulting from the Executive's Disability) after the Corporation has given the Executive written notice of setting forth the nature of the failure to perform the duties and a reasonable opportunity to correct it;
  - (iv) a breach of any provision in Article 5 (provided that the Corporation acts in good faith in determining that such a breach constitutes Cause) or a material breach of any other provision of this Agreement; or
  - (v) the Executive has engaged in on-the-job conduct that materially violates the Corporation's Code of Conduct or other Corporation policies, as determined in the Corporation's sole discretion.

The Executive's resignation in advance of an anticipated termination for Cause shall constitute a termination for Cause.

(e) **"Change of Control"** shall mean the occurrence of any of:

- (i) the purchase or acquisition of Common Shares of the Corporation and/or securities convertible into Common Shares of the Corporation or carrying the right to acquire Common Shares of the Corporation ("**Convertible Securities**") as a result of which a Person, group of Persons or Persons acting jointly or in concert, or any Affiliates or Associates of any such Person, group of Persons or any of such Persons acting jointly or in concert (collectively the "**Holders**") beneficially own or exercise control or direction over Common Shares and/or Convertible Securities of the Corporation such that, assuming the conversion of the Convertible Securities beneficially owned by the Holders thereof, the Holders would have the right to cast more than 50% of the votes attached to all Common Shares of the Corporation; provided that, the acquisition of Common Shares or Convertible Securities of the Corporation pursuant to the issuance of securities from the Corporation which results in a Holder beneficially owning or exercising control or direction over 50% of the votes attached to all Common Shares of the Corporation (assuming conversion of the Convertible Securities beneficially owned by Holders thereof) which is approved by the Board of Directors of the Corporation prior to the issuance of securities shall not constitute a "Change of Control"; or
- (ii) approval by the shareholders of:
  - (A) an amalgamation, arrangement, merger or other consolidation or combination of the Corporation with another entity as a result of which the Persons who are shareholders of the Corporation immediately prior to the transaction will not, immediately after the transaction, own securities

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of the successor or continuing entity which would entitle them to cast more than 50% of the votes attaching to all of the voting securities of the successor or continuing entity,

- (B) a liquidation, dissolution or winding-up of the Corporation,
- (C) the sale, lease or other disposition of all or substantially all of the assets of the Corporation,
- (D) the election at a meeting of the Corporation's shareholders of a number of directors, who were not included in the slate for election as directors approved by the prior Board of Directors, and would represent a majority of the Board of Directors, or
- (E) the appointment of a number of directors which would represent a majority of the Board of Directors and which were nominated by any holder of voting shares of the Corporation or by any group of holders of voting shares of the Corporation acting jointly or in concert and not approved by the Corporation's prior Board of Directors.

(f) **"Confidential Information"** shall mean the following information, whether or not originated by the Executive that relates to the business or affairs of the Corporation, its Subsidiaries, Affiliates and Associates:

- (i) "Material Information" meaning any information relating to the business, operations, capital and affairs of the Corporation that when released would have, or would reasonably be expected to have, a significant effect on the market price or value of any of the Corporation's securities (or the securities of other companies with whom the Corporation may be conducting confidential negotiations). Material information consists of both material facts and material changes relating to the Corporation's business, operations, capital and affairs and includes developments in the Corporation's business, operations, capital and affairs;
- (ii) "Business Opportunities" meaning all business ideas, prospects, proposals or other opportunities pertaining to the lease, acquisition, exploration, production, gathering or marketing of hydrocarbons and related products and the exploration potential of geographical areas on which hydrocarbon exploration prospects are located, which are developed by the Corporation during the term hereof, or originated by any third party and brought to the attention of the Corporation during the term hereof, together with information relating thereto (including, without limitation, geological and seismic data and interpretations thereof, whether in the form of maps, charts, logs, seismographs, calculations, summaries, memoranda, opinions or other written or charted means);
- (iii) "Proprietary Information" meaning any and all records, notes, memoranda, data, ideas, patterns, processes, methods, techniques, systems, formulas, patents, models, samples, specimens, devices, programs, computer software, writings, research, personnel information, plans, customer lists, pricing materials and policies, purchasing methods and policies, or any other

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information of whatever nature in the possession or control of the Corporation which has not been published or disclosed to the general public, or which gives to Employer an opportunity to obtain an advantage over competitors who do not know of or currently use such confidential information.

- (g) **“Constructive Dismissal”** shall mean the occurrence of a material diminution in title and/or duties, responsibilities or authority or the implementation of a requirement that Executive relocate from his present city of residence provided that, such term shall not include:
  - (i) a change consistent with the Corporation splitting a position into one or more positions in conjunction with a corporate reorganization based on the demands of such position so long as there is no reduction in the Annual Salary or other remuneration or responsibilities taken as a whole;
  - (ii) a change in the Executive’s position, duties or title with a Subsidiary, Affiliate or Associate of the Corporation; or
  - (iii) the occurrence of any of the aforesaid events with the consent of the Executive or termination of the employment of the Executive for Just Cause, Death or Disability; or
  - (iv) having the positions of CEO and President held by two different individuals so long as Executive occupies one or the other position.
- (h) **“Date of Termination”** shall mean the date of cessation of the Executive’s employment with the Corporation, regardless of the reason for cessation of employment.
- (i) **“Disability”** shall mean the Executive’s substantial inability, due to a physical or mental impairment, to perform the essential functions of the employment position that the Executive holds with the Corporation, with or without reasonable accommodation, for a period of six (6) cumulative months out of any 18-month period.
- (j) **“Effective Date”** shall mean the effective date of a Change of Control.
- (k) **“Person”** means any individual, Corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock Corporation, trust, plan, unincorporated organization or government or any agency or political subdivisions thereof.
- (l) **“Stock Options”** means options to purchase shares of the Corporation, as may be granted to the Executive from time to time under the Stock Option Plan or otherwise.
- (m) **“Stock Option Plan”** means the Corporation’s Stock Option Plan (1995) as amended from time to time.

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**ARTICLE 2  
EMPLOYMENT**

**2.1 Engagement**

The Corporation shall continue to employ the Executive as the President and Chief Executive Officer of the Corporation and the Executive agrees to continue to be employed in such employment in accordance with the terms and conditions of this Agreement.

**2.2 Performance**

The Executive shall devote substantially his full time, energy, skill and best efforts to the performance of his duties hereunder, in a manner which will faithfully and diligently further the business and interests of the Corporation, its Subsidiaries, Affiliates and Associates. The Executive at all times shall comply with all applicable laws, and shall comply with all policies and instructions of the Corporation in effect from time to time unless any such policies are in direct conflict with the terms of this Agreement, in which case, the terms of this Agreement shall govern to the extent of the conflict.

**2.3 Activities**

The Executive agrees that prior to accepting any directorship, advisory role or other similar role with another corporation (except a Subsidiary, Affiliate or Associate of the Corporation), the Executive shall obtain the written consent of the Corporation. However, nothing contained in this Agreement shall prohibit the Executive from being involved as an investor or shareholder in securities issued by corporations that do not compete directly or indirectly with the business of the Employer or where such investment constitutes not more than 5% of the outstanding securities of a business or corporation whose shares are traded on a national security exchange, so long as the Executive has no participation in the management of such business or company.

**2.4 Term**

This Agreement and the Executive's employment shall continue until terminated in accordance with Article 4.

**ARTICLE 3  
REMUNERATION AND BENEFITS**

**3.1 Annual Salary**

As consideration for the services provided herein, the Corporation shall pay to the Executive an annual salary of US\$240,000.00, paid in equal monthly instalments, less applicable withholdings and deductions. The Annual Salary may be reviewed and increased at the discretion of the Board of Directors. The Annual Salary may be paid by one or more of the Corporation's Subsidiaries and, with the consent of the Corporation, the Executive may direct that all or a portion thereof be paid to a member of the Executive's immediate family or an entity controlled by the Executive or the Executive's immediate family as designated by the Executive, less applicable withholdings and deductions.

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### **3.2 Bonus**

The Executive shall be eligible to receive other incentive compensation as may be determined by and at the discretion of the Board of Directors from time to time ("**Bonus**").

### **3.3 Stock Option Plan**

The Executive will be eligible to participate in the Stock Option Plan at the discretion of the Board of Directors. All issuances of Stock Options will be subject to the terms of the Stock Option Plan and shall be made in accordance with applicable securities legislation.

### **3.4 Benefits**

The Executive shall be eligible to participate in all benefits that the Corporation provides for its Executives resident in the U.S.A. ("**Benefits**"), unless such Benefits are relinquished by the Executive. The Corporation shall provide benefits in accordance with the formal plan documents or policies, and any issues with respect to entitlement or payment of benefits shall be governed by the terms of such documents or policies establishing the benefit in issue.

### **3.5 Expenses**

The Corporation shall reimburse the Executive for all reasonable travelling and other expenses actually and properly incurred by him in connection with his duties hereunder. For all such expenses, the Executive shall furnish the Corporation with statements, receipts or other documentation as may be reasonably required by the Corporation.

### **3.6 Vacation**

The Executive shall be entitled to four (4) weeks paid annual vacation.

## **ARTICLE 4 TERMINATION OF EMPLOYMENT**

### **4.1 Death**

The Executive's employment and this Agreement shall be deemed terminated on the death of the Executive, at which time the Executive's personal representatives shall be entitled to receive the amount of unpaid Annual Salary to and including the date of death, any Bonus declared but not yet paid, plus all outstanding expense reimbursements (in each case less applicable withholdings and deductions).

### **4.2 Disability**

The Executive shall cooperate in all respects with the Corporation if a question arises as to whether the Executive has a Disability. The Executive shall, as reasonably requested by the Corporation, submit to an examination by a medical doctor or other health care specialist mutually selected by the Corporation and the Executive. If the Corporation and the Executive are unable to agree on whether a Disability exists, the determination of the specialist selected pursuant hereto shall be determinative.

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In the event of a Disability of the Executive, the Executive's employment with the Corporation shall be deemed to be frustrated and, unless the Board of Directors determines otherwise, shall automatically terminate. If the Executive's employment is terminated by reason of Disability, then the Corporation shall pay the Executive the amount of unpaid Annual Salary to and including the Date of Termination, any declared but unpaid Bonus, and all outstanding expense reimbursements (in each case, less applicable withholdings and deductions).

#### **4.3 Resignation**

The Executive may at any time provide written notice to the Corporation terminating this Agreement and the Executive's employment, effective at the end of ninety (90) calendar days from the date of such notice. The Executive shall complete all responsibilities under this Agreement to the end of such period provided, however, that the Corporation may, without reducing the Executive's compensation during such period, excuse Executive from any or all duties during such period.

#### **4.4 Termination by the Corporation for Cause**

The Corporation may, at any time, immediately terminate the Executive's employment for Cause, by giving written notice setting forth the nature of the Cause. If the Executive's employment is terminated by the Corporation for Cause, the Corporation shall pay to the Executive the amount of unpaid Annual Salary to and including the Date of Termination, any declared but unpaid Bonus, plus all outstanding expense reimbursements (in each case less applicable withholdings and deductions).

#### **4.5 Termination by the Corporation Without Cause or Termination by the Executive for Constructive Dismissal**

The Corporation may, in its absolute discretion, immediately terminate the Executive's employment at any time without Cause for any reason. At any time within sixty (60) days following an event that constitutes a Constructive Dismissal hereunder, the Executive may terminate his employment with the Corporation upon thirty (30) days written notice.

If the Executive's employment is terminated either by the Corporation without Cause or by the Executive by reason of Constructive Dismissal, then the Corporation shall pay to the Executive the amount of unpaid Annual Salary to and including the Date of Termination, any Bonus that has been declared but not yet paid and all outstanding expense reimbursements (in each case less applicable withholdings and deductions).

In addition, within ten (10) business days of receipt of an executed release in the form of the Release attached as Schedule "A" to this Agreement, the Corporation shall pay to the Executive the following, in each case less applicable withholdings and deductions (collectively, the "Termination Amount"):

- (A) a severance payment in the amount of the Executive's Annual Salary, and
- (B) the sum of US\$15,000, representing compensation for the loss of Benefits.

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#### **4.6 Change of Control**

In the event a Change of Control of the Corporation results in:

- (a) the Corporation terminating the employment of the Executive within thirty (30) days prior to or within one year after the Effective Date; or
  - (b) a Constructive Dismissal within one (1) year after the Effective Date, and the Executive elects to terminate employment with the Corporation;
- the Corporation shall pay to the Executive, within ten (10) business days of receipt of an executed release in the form of the Release attached as Schedule "A" to this Agreement, the Termination Amount as described in Section 4.5.

If the Corporation does not terminate the Executive's employment in accordance with 4.6(a) or the Executive elects not to exercise the option to terminate the Executive's employment pursuant to Section 4.6(b), the Executive's employment shall continue in accordance with the terms of this Agreement, or on such other terms as mutually agreed by the Corporation and the Executive.

#### **4.7 Payment of Termination Amount**

The Termination Amounts payable to the Executive pursuant to Sections 4.5 or 4.6 shall not be reduced in any respect in the event that the Executive shall secure or shall not reasonably pursue alternative employment following the termination of the Executive's employment. Notwithstanding any provision hereof to the contrary, no Termination Amount will be paid to Executive to the extent that such payment would cause, or contribute to an excess parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended.

#### **4.8 Options to Purchase Common Shares**

In the event of termination of the Executive's employment, for any reason, any Stock Options must be exercised in accordance with and shall expire in accordance with the Stock Option Plan.

#### **4.9 Return of Property**

On the Date of Termination, the Executive shall promptly surrender to the Corporation all information in whatever form (including all Confidential Information) and any other documents, materials, data, property, information and equipment belonging to the Corporation or relating to the Corporation's business in his possession, custody or control, and the Executive shall not thereafter retain or deliver to any other Person any of the foregoing or any summary or memorandum thereof.

### **ARTICLE 5 NON-SOLICITATION AND CONFIDENTIALITY**

#### **5.1 Non-Solicitation**

During the Executive's employment with the Corporation and for a period of six (6) months after the Date of Termination (the "Restricted Period"), the Executive shall not, without the prior written consent of the Corporation (i) directly or (ii) knowingly and indirectly:

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- (a) solicit or contract with any employee of the Corporation or any of its Subsidiaries, Affiliates or Associates;
  - (b) commence an offer of any nature or kind whatsoever for any securities or property or assets of the Corporation or any of its Subsidiaries, Affiliates or Associates, including without limitation a tender or exchange offer;
  - (c) solicit proxies from holders of securities of the Corporation or form, join or in any way participate with a “control person” (as such term is defined under the *Securities Act* (Alberta)) with respect to the equity of the Corporation or any of its Subsidiaries or Associates;
  - (d) engage in any discussions or negotiations, conclude any understandings or enter into any agreement, or otherwise act in concert, with any third party to propose or effect any takeover bid, amalgamation, merger, arrangement or other business combination with respect to the Corporation or any of its Subsidiaries or Associates or substantially all of the assets of the Corporation or any of its Subsidiaries or Associates or to propose or effect any acquisition or purchase of any assets of the Corporation or any of its Subsidiaries or Associates;
  - (e) institute any shareholder proposal in respect of the Corporation or otherwise attempt to influence or control the conduct of the security holders of the Corporation; or
  - (f) take any action in furtherance of any of the foregoing,

whether for or on his behalf or for any entity in which he shall have a direct or indirect interest (or any Subsidiary, Affiliate or Associate of any such entity) whether as a proprietor, partner, co-venturer, financier, investor or stockholder, director, officer, employer, servant, agent, representative or otherwise.

## **5.2 Confidentiality**

- (a) Other than in the normal course of the fulfilling Executive’s duties to and positions with the Corporation, its Subsidiaries, Affiliates and Associates during the Restricted Period:
  - (i) The Executive shall receive and hold all Confidential Information absolutely secret, undisclosed, in trust and in confidence, and shall comply with the Corporation’s policies and guidelines and use his best efforts for the protection of Confidential Information.
  - (ii) The Executive shall not reveal or disclose to any Person outside the Corporation or use for his own benefit, whether by private communication or by public address or publication or otherwise, any Confidential Information without the Corporation’s specific written authorization or except as required by a mandatory provision of applicable law, *provided however, that* prior to any unauthorized use or disclosure of Confidential Information that is required by law, the Executive shall give the Corporation reasonable prior notice of any disclosure of Confidential Information required by law and shall permit and cooperate with any effort by the Corporation to obtain a protective order or similar protection for the Corporation. The Executive shall take such action as is reasonably necessary to ensure that no family

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member of the Executive or other Person affiliated with Executive discloses or permits the disclosure of any Confidential Information.

- (b) All originals, copies and other forms of Confidential Information, however and whenever produced, shall be the sole property of the Corporation, not to be removed from the premises or custody of the Corporation, except in the normal course of business.
- (c) This Agreement and all information and documents concerning the substance and terms of this Agreement shall be Confidential Information and shall be maintained in confidence and shall not be disclosed to any other Person except in compliance with the Corporation's disclosure policies or without the Corporation's specific written authorization or as required by law.

### **5.3 Acknowledgement**

The Executive acknowledges and agrees that:

- (a) he will receive or will become eligible to receive substantial benefits and compensation as a result of his employment by the Corporation and its Subsidiaries under this Agreement, which benefits and compensation are offered to him only because and on condition of his willingness to commit his best efforts and loyalty to the Corporation, including abiding by the terms and restrictions in this Article 5;
- (b) as a result of the acquisition of Confidential Information, the Executive will occupy a position of trust and confidence with the Corporation and its Subsidiaries, Affiliates and Associates;
- (c) the Business Opportunities constitute the exclusive property of the Corporation;
- (d) the Executive's position of trust and knowledge of Confidential Information would enable the Executive to put the Corporation at a significant competitive disadvantage if the Executive breaches the restrictions in this Article 5;
- (e) irreparable damage would result to the Corporation if the provisions of this Article 5 hereof are not specifically enforced, and the Executive waives all defences to the strict enforcement thereof by the Corporation;
- (f) the Corporation shall be entitled to any appropriate legal, equitable, or other remedy, including injunctive relief, in respect of any failure or continuing failure on his part to comply with Article 5;
- (g) any breach of this Article 5 shall constitute grounds for termination of the Executive's employment for Just Cause.

### **5.4 Survival**

Notwithstanding the termination of this Agreement and the Executive's employment, the provisions of this Article 5 shall survive such termination.

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**ARTICLE 6  
GENERAL**

**6.1 Enurement**

This Agreement shall enure to the benefit of and be binding upon the Corporation, its successors and permitted assigns, and the Executive and his personal representatives.

**6.2 Notices**

All notices authorized or required to be given pursuant to this Agreement shall be given to the parties hereto at the following addresses or such other addresses as they may specify by written notice:

Corporation:	444 5 <sup>th</sup> Avenue S.W., Suite 1840, Calgary, Alberta T2P 2T8 and 5910 N. Central Expressway, Suite 1755, Dallas Texas 75206
Executive:	6229 Orchid Lane, Dallas, Texas 75230

All notices shall be in writing and may be delivered by hand, mailed by registered or first class mail or sent by telecommunication. Notices shall be deemed to have been given and received:

- (a) if delivered, on the day on which it was delivered,
- (b) if mailed, three business days following the date of mailing, or
- (c) if sent by telecommunication, on the first business day following the day it was dispatched.

**6.3 Governing Law**

This Agreement shall be governed by and construed in accordance with the laws in force in the State of Texas, USA.

**6.4 Entire Agreement**

This Agreement shall constitute the entire Agreement between the Executive and the Corporation in respect of the matters set forth herein. Except as otherwise specified herein or in writing by the Corporation after the date hereof, to the extent of any conflict or inconsistency between the terms of this Agreement and any other Agreement or document between the Executive and the Corporation or otherwise related to the Executive's employment with the Corporation, this Agreement shall govern to the extent of such inconsistency or conflict.

**6.5 Severability**

The provisions of this Agreement shall be deemed severable. If any provision of this Agreement shall be held unenforceable by any court of competent jurisdiction, such provision shall be modified to the extent necessary to be enforceable, and the remaining provisions shall remain in full force and effect.

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**6.6 Amendments and Waivers**

All modifications, amendments and supplements to this Agreement must be made in writing and signed by both parties. No waiver by any party hereto of any provision hereof or of any breach of this Agreement shall be effective or binding unless such waiver is in writing, and any such waiver shall not limit or affect such party's rights with respect to any future breach.

**6.7 Counterparts**

This Agreement may be signed in two (2) counterparts, each of which shall be deemed an original and both of which shall together constitute the same instrument.

**6.8 Legal Advice**

The Executive acknowledges having had the opportunity to seek independent legal advice in connection with negotiation and execution of this Agreement.

**IN WITNESS WHEREOF**, this Agreement has been executed by the Executive and the Corporation as of and from the 1st day of July, 2005.

**TransAtlantic Petroleum Corp.**

Per: \_\_\_\_\_

Name: Michael Winn

Title: Chairman

SIGNED, SEALED AND DELIVERED in the  
presence of

)  
)  
)  
)  
)  
)

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Scott C. Larsen

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**RELEASE**

**RELEASE**

In consideration of payment of the amount of US\$\_\_\_\_\_, less deductions as required by law, and other good and valuable consideration, the receipt of which is hereby acknowledged, I, Scott C. Larsen, do for myself and my heirs, executors, administrators, personal representatives and assigns (collectively referred to as "I") forever release, remise and discharge TransAtlantic Petroleum Corp., its associates, affiliates, subsidiaries, partners, successors, predecessor companies (collectively the "Corporation"), and the Corporation's officers, directors, shareholders, employees, agents, insurers and assigns (together with the Corporation, the "Released Parties") from any and all actions, causes of actions, contracts (whether express or implied), claims and demands for damages, suits, debts, sums of money, indemnity, expenses, interest, costs and claims of any and every kind and nature whatsoever, at law or in equity, which I ever had or now have, or which I or my heirs, successors or personal representatives may hereafter have, by reason of or existing out of any causes whatsoever existing up to and inclusive of the date of this Release, including but without limiting the generality of the foregoing:

- (a) my employment with the Corporation;
- (b) the Executive Employment Agreement dated effective July 1, 2005 and any other written or oral agreement between any member of the Corporation (collectively the "Employment Agreement");
- (c) the expiration or termination of the Employment Agreement and my ceasing to be employed by the Corporation, including, but not limited to, claims for compensation, commissions, bonuses, stock options, other wages and benefits, breach of contract, wrongful termination, impairment of economic opportunity, intentional infliction of emotional distress, claims based on personal injury, work-related accident, any breach of implied or express covenant of good faith and fair dealing, violation of public policy, or any other contract, tort or personal injury claim;
- (d) any claims which I may have arising under or relating to any U.S. or Canadian federal, state, provincial or local statute, regulation or ordinance relating to employment, employment discrimination or retaliation, including the following U.S. statutes: Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000 *et seq.*; The Civil Rights Act of 1866, as amended, 42 U.S.C. § 1981; The Civil Rights Act of 1991, as amended, 42 U.S.C. § 1981a; **The Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. § 621 *et seq.***; Americans With Disabilities Act, as amended, 42 U.S.C. § 12101 *et seq.*; Fair Labor Standards Act, as amended, 29 U.S.C. § 201, *et seq.*; Equal Pay Act, as amended, 29 U.S.C. § 201 *et seq.*; National Labor Relations Act, as amended, 29 U.S.C. § 151 *et seq.*; Worker Adjustment and Retraining Notification Act, as amended, 29 U.S.C. § 2101 *et seq.*; Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1000 *et seq.*; Family and Medical Leave Act, as amended, 29 U.S.C. § 2601, *et seq.*; The Texas Commission on Human Rights Act, as amended, Tex. Lab. Code § 21.001, *et seq.*;
- (e) any claims which I may have arising under or relating to Canadian employment standards legislation or human rights legislation;

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- (f) any U.S. or Canadian federal, state, provincial, local, or other statute, law or rule, regulation, executive order or guideline, or principle of constitutional or common law, including, but not limited to, those laws specifically described above.
  - (g) any and all claims for damages, salary, wages, termination pay, severance pay, vacation pay, bonuses, expenses, allowances, any stock options or rights to purchase shares granted by the Corporation incentive payments, insurance or any other benefits (or loss thereof) arising out of my employment with the Corporation; and
  - (h) all such further costs, expenses or damages which may properly be alleged to arise in respect of the cessation of my employment with the Corporation.

Notwithstanding anything contained herein, this Release shall not extend to or affect, or constitute a release of any right that I may have in respect of:

- (i) any corporate indemnity existing by statute, contract or pursuant to any of the constating documents of the Corporation provided in my favour in respect of my having acted at any time as an officer of the Corporation;
- (j) my entitlement to any insurance maintained for the benefit or protection of the directors and/or officers of the Corporation, including without limitation, any directors' and officers' liability insurance; or
- (k) all rights and benefits under that certain Participating Interest Agreement dated July 11, 2005 between TransAtlantic Worldwide, Ltd., Scott C. Larsen and the Corporation.

#### **NO ADMISSION**

I acknowledge that payment of the consideration set out above does not constitute any admission of liability by or on behalf of the Released Parties.

#### **INDEMNITY FOR TAXES**

I confirm and warrant that I will save, hold harmless and indemnify the Corporation from and against all claims, taxes or penalties and demands which may be made by the Minister of National Revenue requiring the Corporation to pay income tax under the *Income Tax Act* (Canada), and/or by the U.S. Internal Revenue Service and/or State taxing authorities requiring the Corporation to pay or withhold income tax under U.S. or State tax laws, in respect of income tax payable in excess of the income tax previously withheld and with respect to any other income tax which may, in the future, be found to be payable or to be withheld by the Corporation on my behalf.

#### **BENEFITS AND INSURANCE CLAIMS**

I acknowledge and understand that the Corporation will discontinue all of my employment benefits effective [date]. I further acknowledge and agree that I have no further claim against the Corporation for benefits or damages arising from the cessation of benefits and that I have been provided with information concerning:

- (a) any available right to continue any such benefits, at my own expense under the U.S. COBRA law; and

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(b) any available right to convert my life insurance coverage to an individual policy of life insurance at my own expense.

I fully accept sole responsibility to replace those benefits that I wish to continue and to exercise conversion privileges where applicable with respect to benefits. In the event that I become disabled, I covenant not to sue the Corporation for insurance or other benefits, or for loss of benefits. I hereby release the Released Parties from any further obligations or liabilities arising from my employment benefits.

**NON-DISCLOSURE**

I agree that I will not divulge or disclose, directly or indirectly, the contents of this Release or the terms of settlement relating to my ceasing to be employed with the Corporation to any person, including but without limiting the generality of the foregoing, to employees or former employees of the Corporation, except my legal and financial advisors and my immediate family, on the condition that they maintain the confidentiality thereof, except as may be required by law.

**CONFIDENTIALITY and NON-SOLICITATION**

I acknowledge and agree that I continue to be bound by Clause 5 of the Employment Agreement, a copy of which is attached.

**FURTHER CLAIMS**

I agree that I will not make claim or take proceedings against any other person or entity that might claim contribution or indemnity under the provisions of any statute or otherwise against the Corporation or any individual or entity discharged through this Release.

**EFFECT OF RELEASE**

I understand and agree that by signing this Agreement, I - on behalf of myself, my family, assigns, representatives, agents, estate, heirs, beneficiaries, executors, administrators, successors, and/or attorneys, if any - agree to give up any right or entitlement I may have under U.S. or Canadian federal, state, provincial or local law against the Released Parties, concerning any events related to my employment or termination, or the Corporation's failure to continue my employment. This Agreement extinguishes any potential employment discrimination claims I may have relating to my employment with the Corporation and the Corporation's termination of my employment existing on the date I sign this Agreement.

I further represent and warrant that I have not assigned to any third party any claim involving the Released Parties or authorized any third party to assert on my behalf any claim against the Released Parties. If a third party asserts a claim against the Released Parties on my behalf or includes me as a class member in any class action involving any claim, I agree to not accept any benefits or damages relating or arising out of such claim.

**COOPERATION**

For a reasonable period after my termination, I agree to make myself available and to reasonably cooperate with the Corporation in any future claims or lawsuits involving the Released Parties where I have knowledge of the underlying facts or to affect the completion of my outstanding employment duties

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or the transfer of such duties. The Corporation agrees to reimburse me for time I spend at the Corporation's request at a rate per hour equivalent to what I earned with the Corporation immediately before my notice of termination. Any obligations performed to affect the completion or transfer of my duties shall be performed as an independent contractor, not as an employee. I will not be reimbursed if I am a named party in any claim or lawsuit. In addition, I agree not to voluntarily aid, assist or cooperate with any claimant or plaintiff or their attorneys or agents in any claim or lawsuit commenced against the Released Parties.

Nothing in this Agreement should be construed to prevent me from initiating or participating in any U.S. or Canadian federal, state, provincial or local agency administrative proceeding or from testifying at an administrative hearing, deposition, or in court in response to a lawful subpoena.

#### **UNDERSTANDING**

**I acknowledge that this Release may be enforced in any court, federal, state, provincial, or local, and before any administrative agency or body, federal, state, provincial, or local. I hereby declare that I have had the opportunity to seek independent legal advice with respect to the matters addressed in this Release and the terms of settlement which have been agreed to by the Corporation and me, and I fully understand this Release and the terms of settlement. I hereby voluntarily accept the terms for the purpose of making full and final compromise, adjustment and settlement of all claims as aforesaid.**

#### **COMPLETE AGREEMENT**

I understand and agree that this Release contains the entire agreement between the Released Parties and me regarding the aforesaid matters and that the terms of this Release are contractual and not a mere recital.

#### **REVIEW PERIOD, EXECUTION, AND REVOCATION**

**I understand that I can have 21 calendar days from my receipt of this Agreement to consider whether to accept its terms. I agree that changes to this Agreement, whether material or immaterial, do not restart the running of the 21-day period. After signing the Agreement, I will have seven (7) calendar days to consider whether to revoke it. The Agreement will not be effective until seven (7) calendar days after I sign the Agreement without revoking it.**

If I choose to revoke the Agreement, please notify in writing: \_\_\_\_\_  
\_\_\_\_\_.

#### **EFFECTIVE PERIOD**

This Agreement is null and void if: (i) I fail to execute and return it within 21 days of receipt; or (ii) I sign it within 21 days, but revoke my execution within seven (7) calendar days after signing it.

DATED at \_\_\_\_\_, \_\_\_\_\_ effective the \_\_\_\_ day of \_\_\_\_\_, 200\_\_.

**Management Agreement**

This Management Agreement (the "Agreement") is made effective April 1, 2006 (the "Effective Date") by and between Charles Management Inc., a Texas corporation whose address is 5910 North Central Expressway, Suite 1755, Dallas, Texas 75206 ("CMI") and TransAtlantic Worldwide, Ltd., a Bahamas corporation whose address is Kings Court, Bay Street, PO Box N-3944, Nassau, Bahamas ("Client"). CMI and Client are sometimes jointly referred to as the "Parties".

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

**1. GENERAL PROVISIONS**

1.1 Scope of Services. CMI shall provide the services set forth in Appendix A to this Agreement (the "Services"). CMI's advice to Client in respect of the Services shall be given orally or in writing. CMI shall report to the nominated representative of Client, or to such other individual as Client may hereafter specify by written notice to CMI. When requested, CMI shall provide Client with a summary report, in which CMI describes the Services it has performed since the last report.

1.2 Relationship between the Parties. Nothing contained herein shall be construed as establishing or creating a partnership, master and servant relationship or principal and agent relationship between CMI and Client.

1.3 Law. The Agreement shall be governed by and construed in accordance with the laws of the State of Texas, the location of CMI's offices.

1.4 Interpretation. Words importing the singular include the plural and vice versa where the context requires. The word 'days' denotes calendar days. The word 'months' denotes calendar months. The headings in this Agreement shall not be deemed to form part thereof.

1.5 Notices. All notices under this Agreement shall be given in writing and shall be deemed to have been duly given if delivered by hand or by registered post, at the address of each of the parties specified in this Agreement. Copies of notices by electronic mail shall have the same validity as written notices if they are confirmed by an electronic read receipt from a computer belonging to each of the parties specified in this Agreement. Each Party shall have the right from time to time during the term of this Agreement to change its address, telephone, facsimile numbers, email address and/or the person to whom communications are to be delivered by notifying the other Party in writing.

**2. TERM; AMENDMENT OR TERMINATION OF AGREEMENT**

2.1 Term. This Agreement shall come into force on the Effective Date and shall remain in force until December 31, 2007 and may be continued for an additional year upon Client giving written notice of intent to extend at least thirty (30) days prior to the end of the term or until as otherwise mutually agreed subject to the provisions of Clause 2.5 hereof.

2.2 Commencement. CMI shall provide the Services as soon as required after the Effective Date.

2.3 Amendment. This Agreement shall not be amended without the prior written approval of both Parties.

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2.4 Assignment. CMI shall not assign the benefit or in any way transfer the obligations of this Agreement or any part thereof without the prior written consent of the Client.

2.5 Termination. CMI shall have the right to terminate this Agreement at any time by giving not less than ninety (90) days prior written notice to Client. Client may terminate this Agreement at any time upon written notice to CMI. Any termination of this Agreement shall not prejudice or affect the accrued rights or claims of either Party hereto up to and including the termination date.

CMI shall be entitled to receive the remuneration for the Services duly performed up to the effective date of termination. CMI shall immediately return to Client all documentation, drawings and any other material furnished by Client to CMI for the purpose of the Services and/or prepared by CMI in the course of performing the Services.

### 3. OWNERSHIP OF DOCUMENTS AND COPY RIGHT

All correspondence, reports, calculations and other documents furnished to CMI or prepared by CMI in performance of the Services (the 'Results') shall be the property of the Client. CMI shall not retain the copyright to the Results and hereby agrees that the copyright to the Results shall be the property of Client.

### 4. SETTLEMENT OF DISPUTES

[Intentionally omitted.]

### 5. OBLIGATIONS OF CMI

5.1 Care and Diligence. CMI shall exercise all reasonable skill, care and diligence in the performance of the Services under this Agreement, and shall carry out all its responsibilities in accordance with recognised professional standards. CMI will use all reasonable efforts to ensure that any advice and information supplied by CMI in the performance of the Services is timely, accurate and complete.

5.2 Conflict of Interest. CMI shall not undertake any work for third parties during the term of this Agreement which will give rise to any conflicts of interest or cause any impediment to the Services provided for Client.

5.3 Personnel. Where this Agreement specifies that the Services will be provided by a named individual, CMI agrees to take all reasonable steps to ensure that these persons will remain on this assignment for the full term of the Agreement. CMI further agrees to obtain Client's agreement to any significant substitution of personnel that is necessitated by unforeseen circumstances.

5.4 Confidentiality. All information which CMI directly or indirectly acquires from Client, including information relating to Client's business, its clients, or its associates and information arising out of the Services (hereinafter together referred to as 'Confidential Information') shall be considered as secret. CMI shall keep Confidential Information secret and shall not disclose the same to any third party nor use the same except in providing the Services without the prior written consent of Client.

The foregoing shall not apply to information which CMI can show (a) at the time of disclosure is or becomes public knowledge other than through the negligence or default of CMI, or (b) was already in CMI's possession before the Effective Date.

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## 6. REMUNERATION, INVOICING AND PAYMENT

6.1 Retainer and Additional Services Fees. 'Retainer Fee' shall be defined as a non-refundable payment made to secure CMI's services for a fixed period of time (the 'Contracted Activity Time') each month. Client will pay the Retainer Fee to CMI for each month in accordance with Appendix B hereto. Such Retainer Fee shall constitute payment in full for the Contracted Activity Time provided during each month hereunder.

6.2 Time Basis for Agreement. Chargeable time ('Activity Time') includes all time spent acting for the Client including travel, office, administrative, preparatory, productive and telephone time in addition to actual client meetings and external meetings or interviews. Where applicable, Activity Time is calculated inclusive of travel time from the prior non-client activity (such as from third party premises). The unit of Activity Time is the Day.

6.3 Expenses. CMI is hereby authorised to incur, without prior notice to the Client, 'reasonable' travel expenses (as outlined below) in performing Client's instructions. The Client agrees to reimburse these in addition to the Fees (as defined in Clause 6.1 above).

Purchases by CMI of third-party reports, information or data relevant to the Services require prior written approval of Client. The cost of such purchases will be treated as an allowable expense and invoiced to the Client at cost.

Invoices for Expenses will normally be presented monthly.

'Reasonable' travel expenses are those generally applicable within international corporations to their executives and vary to reflect the different standards applied to business travel in various parts of the world. For illustrative purposes, they include, inter alia, Business Class international air travel and Economy (or 'Coach') class U.S. internal flights, accommodation and incidental costs within an hotel suitable for business affairs, all meals while acting on behalf of Client, 1st class rail travel, taxis, car-hire costs for a mid-size vehicle, and entertainment costs for third-party contacts made on behalf of Client commensurate with obtaining the maximum value-for-money from the contact for Client.

Allowable Expenses are charged to the Client at the gross invoice value. Expenses will be charged inclusive of any sales taxes (or similar fiscal levies) where these are payable by CMI, whether or not CMI may be able to subsequently reclaim any part of these. VAT (and any other relevant tax) will be added to the invoice amount in line with current legislation at the rate ruling at the time of invoice.

Any additional charge for incidental expenses would normally be waived, except where these costs represent a significant cost, in which case the cost shall be agreed by Client in advance.

6.4 Remuneration and Invoicing. In consideration of the Services performed by CMI under this Agreement, CMI shall invoice the Client for the Retainer Fee. This amount is specified in Appendix B. CMI shall submit its invoice promptly after the close of the month in which the Services have been performed. Unless otherwise provided for in this Agreement, Client shall reimburse CMI for all reasonable Expenses involved in performance of the Services.

If required by Client, CMI shall provide with each invoice for reimbursable rates a timesheet detailing the Activity Time spent in performing the Services and copies of supporting documents (receipts etc) for reimbursable Expenses.

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If any item or part of an item or an invoice shall be disputed, such item or part shall be deducted from the invoice pending settlement of the dispute and the remainder shall be paid as provided above. Any amount due after settlement of the dispute shall be added to the next invoice.

6.5 Payment Terms. The currency of payment will be U.S. Dollars. Both Parties agree to accept this in terms of both invoices and payments.

No account will be taken of exchange rate fluctuations during the term of this Agreement. Each Party accepts as their own responsibility the variation, whether favourable or unfavourable, that they may see in local currency terms in respect of this Agreement.

Client shall pay CMI promptly within ten (10) days of receipt of each invoice for Retainer Fees and Expenses.

Client shall make payment by wire transfer in U.S. Dollars to CMI's Bank Account which CMI shall notify to Client.

Client's responsibility is for payment to CMI of the full amount agreed. Client agrees to adjust all payments to take into account any charges levied (such as may be made by the transferring bank), such that the full amount is received by CMI. Client accepts that CMI shall be entitled to recover all deducted amounts.

Client agrees to pay all government taxes and duties, regardless of origin, that may apply to all payments to CMI. Client further agrees that, should there be a change in type or variation during the term of this Agreement, whether favourable or unfavourable to Client, he will be responsible for them in totality. Each Party will be responsible for recovering his own entitlement respect of pre-payments (for example in respect of VAT or sales tax).

## 7. PUBLICITY

CMI shall be permitted to identify itself as a representative of Client for the purpose of performing the Services. Client will provide CMI with business cards for this purpose.

## 8. INDEMNIFICATION

CMI shall indemnify and hold Client harmless from and against any claims, demands, losses, liabilities, suits, expenses, costs or causes of action in respect of damage to, injury or death of CMI personnel or equipment howsoever arising and irrespective of the negligence of the Client.

Client shall indemnify and hold CMI harmless from and against any claims, demands, losses, liabilities, suits, expenses, costs or causes of action in respect of damage to, injury or death of Client personnel or equipment howsoever arising and irrespective of the negligence of the CMI.

Neither party hereto shall be liable to the other for loss of profit, business interruption or any other indirect or consequential loss whether in contract, tort (including negligence) or otherwise at law.

CMI shall be solely responsible and liable for and on behalf of Client for the payment of and compliance with all taxes and levies relating to Services performed under this Agreement, including but not limited

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to, corporate income tax, personal income tax, withholding tax, social insurances and labour surcharges, value added tax, sales tax and indirect taxes.

9. FORCE MAJEURE

While CMI agrees to use its best endeavours to perform the Services for Client as specified, CMI will not be responsible for any delays or failure to perform the Services which are beyond CMI's control and which could not have been reasonably predicted.

Where events outside either Party's control cause such delay that the purpose of this Agreement is materially destroyed, either Party shall be entitled to terminate the Agreement upon thirty (30) days prior written notice. In such circumstances Client will not make any further payments of Fees, and there will be no refund of payments already made.

10. ACCESS

The authorised representatives of Client shall have access at all reasonable times to the place where the Services are being carried out to allow them to monitor progress of the Services.

Agreed for and on behalf of  
Charles Management Inc.

Agreed for and on behalf of  
TransAtlantic Worldwide, Ltd.

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Scott C. Larsen  
President

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David Campbell  
Director

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Appendix A  
Services To Be Performed on Behalf of Client

1. General Advice and assistance concerning the business of Client and its subsidiaries including:
  - a. Establishing business contacts;
  - b. Identifying key government departments and agencies, and their officials;
  - c. Analyzing and interpreting governmental policies in the areas of petroleum exploration and production;
  - d. Formulating and developing strategies for establishing and maintaining Client's relations with government and business contacts; and
  - e. Purchasing reports, information and data as required.
2. Advice regarding business strategy and competitor activities concerning the business of Client and its subsidiaries, including:
  - a. Demonstrating the technical and commercial potential for viable business opportunities in petroleum exploration and production;
  - b. Refining and developing appropriate business strategies; and
  - c. Setting budgets and business expectations.
3. Assistance in identifying, evaluating and obtaining business opportunities for Client and its subsidiaries in the areas of petroleum exploration and production, including:
  - a. Reviewing and screening of open acreage and farm-in opportunities on licensed acreage,
  - b. Reviewing and screening potential joint venture partners.
4. Assistance in obtaining and negotiating agreements with business entities or government agencies.
5. Services as an officer and/or director of Client and its subsidiaries.
6. Such other Services as requested by Client and its subsidiaries and that CMI is reasonably able to provide in order to assist the Client and its subsidiaries.

Services will be performed by Scott C. Larsen at the offices located at 5910 N. Central Expressway, Suite 1755, Dallas, TX 75206 or elsewhere as required by the nature of the Services.

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Appendix B  
Remuneration For Services specified in Appendix A

Retainer Fee:	\$10,000 per calendar month
Contracted Activity Time:	Ten (10) Days

**PARTICIPATING INTEREST AGREEMENT**

THIS PARTICIPATING INTEREST AGREEMENT (this "Agreement") made as of July 11, 2005 (the "Effective Date")

BETWEEN

TRANSATLANTIC WORLDWIDE LTD., a Bahamian corporation (the "Grantor")

- and -

SCOTT C. LARSEN, an individual residing in Dallas, Texas (the "Grantee")

- and -

TRANSATLANTIC PETROLEUM CORP., an Alberta corporation (the "Guarantor")

WHEREAS the Grantor has entered into the TWL Compensation Agreement (the "TWL Compensation Agreement") dated June 20, 2005 with Tetrarch Limited ("Tetrarch") (a copy of which is attached hereto as Exhibit A and incorporated herein by reference for all purposes) pursuant to which Tetrarch has agreed to compensate the Grantor for a certain service agreement which Tetrarch was successful in entering into;

AND WHEREAS the Grantor wishes to compensate the Grantee for his efforts in securing the compensation arrangements with Tetrarch by granting the Grantee an interest in any monies which may be received by the Grantor pursuant to the TWL Compensation Agreement;

AND WHEREAS the parties hereto have provided hereinafter the terms and conditions on which such interest is to be received by the Grantee;

AND WHEREAS Guarantor has agreed to join in this Participating Interest Agreement for the sole purpose of guaranteeing the performance of Grantor hereunder;

NOW THEREFORE THIS AGREEMENT WITNESSES that the parties hereto agree as follows:

1. Participating Interest. The Grantor hereby reserves in favour of the Grantee an interest in any TWL Compensation (as that term is defined in the TWL Compensation Agreement) actually received by the Grantor (the "Participating Interest") which Participating Interest shall be equal to 3.87% of any TWL Compensation received by the Grantor from time to time, subject to the following terms and conditions:

- (a) The Participating Interest shall be free and clear of all liens, claims or encumbrances.
- (b) Each payment with respect to the Participating Interest shall be made within thirty (30) days of actual receipt by the Grantor of any payment

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from Tetrarch pursuant to the TWL Compensation Agreement. For greater certainty, the Grantor's obligation to pay the Participating Interest to the Grantee only arises if, as and when payment(s) are received by the Grantor pursuant to the TWL Compensation Agreement.

- (c) Subject to Paragraph 2 below, the Participating Interest shall remain in force and effect until the Grantee shall have received the sum of U.S.\$599,850 (the "Maximum Interest") from the Grantor pursuant to the terms of this Agreement.
- (e) The Grantee shall have no right to assign, sell, transfer or convey, however accomplished (whether directly or indirectly), the Participating Interest granted under this Agreement without the prior written consent of the Grantor.

2. Reduction of Maximum Interest. The Grantee acknowledges and agrees that the Grantor has entered into a Security and Pledge Agreement with Summit Oil Limited dated June 20, 2005 (the "Summit Pledge Agreement") pursuant to which the Grantor has pledged all of its interest in and rights to receive payments under the TWL Compensation Agreement. The Grantee further agrees that in the event that any portion of the TWL Compensation is paid by Tetrarch to Summit Oil Limited in accordance with the terms of the Summit Pledge Agreement and such payment results in a reduction of the Maximum Sum (as that term is defined in the TWL Compensation Agreement) payable to the Grantor, the Maximum Interest of the Grantee under this Agreement shall be reduced by the same percentage as the Maximum Sum is reduced under the TWL Compensation Agreement.

3. No Warranties. This Agreement is made without warranty of any kind or nature.

4. Taxes. The Grantee agrees that he will be liable for all taxes in respect of amounts received by the Grantee attributable to the Participating Interest. The Grantee further acknowledges and agrees that the Grantor shall have the right to deduct from any payment required to be made to the Grantee pursuant to this Agreement and withhold any and all amounts that the Corporation is obliged to withhold and remit to the relevant taxing authority.

5. Agreement to Provide Information. Under the terms of the TWL Compensation Agreement, Tetrarch is obligated to provide to the Grantor, a Quarterly Statement (as that term is defined in the TWL Compensation Agreement). While this Agreement is in force and effect, the Grantor hereby agrees to provide a copy of the Quarterly Statement to the Grantee no later than thirty (30) days from the date the Grantor receives each such Quarterly Statement.

**6. GOVERNING LAW. THE VALIDITY, EFFECT AND CONSTRUCTION OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF TEXAS, EXCLUDING ITS CONFLICT OF LAWS PRINCIPLES.**

7. Notice. All notices and other communications required or permitted under this Agreement (except for Quarterly Statements provided for under Paragraph 5 above which may be sent by regular mail) shall be in writing and any communication or delivery hereunder shall

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be deemed to have been duly given and received when actually delivered to the address set forth below for the party to be notified, or when a legible facsimile copy is received by the party's facsimile equipment at the number shown below:

If to the Grantor: c/o TransAtlantic Petroleum (USA) Corp.  
5910 N. Central Expressway, Suite 1755  
Dallas, TX 75206  
FAX: 214-220-4327

With a copy to: Such other persons as the Grantor may designate in writing.

If to the Grantee: Scott C. Larsen  
6229 Orchid Lane  
Dallas, Texas 75230  
FAX: 214-363-3868

A party may, by written notice so delivered to the other, change the address or facsimile number to which delivery shall thereafter be made.

8. No Waiver. The failure of any party to insist upon strict performance of a covenant hereunder or of any obligation hereunder, irrespective of the length of time for which such failure continues, shall not be a waiver of such party's right to demand strict compliance in the future. No consent or waiver, express or implied, to or of any breach or default in the performance of any obligation hereunder shall constitute a consent or waiver to or of any other breach or default in the performance of the same or any other obligation hereunder.

9. Arbitration. Any dispute arising out of or relating to this Agreement, including any question regarding its existence, validity or termination, shall be resolved by binding arbitration administered by the American Arbitration Association (AAA). Confirmation and judgment upon the award rendered by the arbitrator(s) may be entered by any state or federal court having jurisdiction thereof. The place of arbitration shall be Dallas, Texas and all proceedings shall be conducted in the English language. A dispute shall be deemed to have arisen when any party gives notice to the other party to that effect.

10. Amendments. This Agreement may not be amended nor any rights hereunder waived except by an instrument in writing signed by the party to be charged with such amendment or waiver and delivered by such party to the party claiming the benefit of such amendment or waiver.

11. Headings. The headings of the paragraphs of this Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this Agreement.

12. Counterparts. This Agreement may be executed by Grantor and Grantee in counterparts, each of which shall be deemed an original instrument but all of which together shall constitute but one and the same instrument.

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13. Entire Agreement. This Agreement (including the exhibits hereto) constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and prior agreements and understandings relating to such subject matter.

14. Parties in Interest. This Agreement and all its terms, provisions, conditions, covenants and warranties shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns. Nothing contained in this Agreement, express or implied, is intended to confer upon any other person or entity any benefits, rights or remedies.

15. Guarantee. For good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, Guarantor unconditionall and irrevocably guarantees to Grantee the due and punctual performance of Grantor's obligations under this Agreement

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the Effective Date.

TransAtlantic Worldwide Ltd.

By: \_\_\_\_\_  
Name: Chris H. Lloyd  
Title: Chief Financial Officer

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Name of Witness

\_\_\_\_\_  
Address of Witness

\_\_\_\_\_  
Scott C. Larsen

TransAtlantic Petroleum Corp.

By: \_\_\_\_\_  
Name: Michael Winn  
Title: Chairman

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STATE OF TEXAS     §  
                                  §  
COUNTY OF DALLAS §

The foregoing instrument was acknowledged before me on \_\_\_\_\_, 2006 by \_\_\_\_\_, of TransAtlantic Worldwide Ltd., a Bahamian corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for  
the State of Texas

My Commission Expires:

\_\_\_\_\_  
Printed Name of Notary

STATE OF CALIFORNIA §  
                                  §  
COUNTY OF \_\_\_\_\_ §

The foregoing instrument was acknowledged before me on \_\_\_\_\_, 2006 by Michael Winn, of TransAtlantic Petroleum Corp., an Alberta corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public in and for  
the State of California

My Commission Expires:

\_\_\_\_\_  
Printed Name of Notary

**TRANSATLANTIC PETROLEUM CORP.****Amended and Restated Stock Option Plan (2006)<sup>1</sup>**

The following sets forth the terms and conditions of the Amended and Restated Stock Option Plan (the “Plan”) adopted by the Board of Directors of TransAtlantic Petroleum Corp. (the “Corporation”) and approved by the shareholders of the Corporation which shall govern the issuance of stock options (the “Stock Options”) to employees, directors and officers of, and persons and companies who provide services to the Corporation and subsidiaries of the Corporation:

**1. Purpose**

The principal purposes of the Plan are:

- (a) to promote a proprietary interest in the Corporation among its employees, officers and directors and persons and companies providing services to the Corporation;
- (b) to retain and attract the qualified personnel and service support the Corporation requires;
- (c) to provide an incentive element in compensation; and
- (d) to promote the profitability of Corporation.

**2. Reservation of Shares**

Subject to Section 11 of this Plan, the maximum number of common shares of the Corporation (the “Common Shares”) issuable pursuant to Stock Options outstanding under the Plan, and under any other security based compensation arrangements the Corporation may have from time to time, for Eligible Optionees (as hereinafter defined) shall not exceed 10% of the aggregate number of issued and outstanding Common Shares, on a non-diluted basis, at the time of grant. If the Corporation’s Common Shares are listed on the Toronto Stock Exchange (the “TSX”), any amendment to the fixed maximum percentage of Common Shares reserved for issuance pursuant to the exercise of stock options shall be approved by the TSX and the shareholders of the Corporation. For greater certainty, the reloading of the Common Shares authorized for issuance after the exercise of a Stock Option under the Plan does not require TSX or shareholder approval.

**3. Eligibility**

Stock Options shall be granted only to persons, firms or companies (“Eligible Optionees”) who are:

- (a) bona fide employees (full-time or part-time), officers or directors of the Corporation or of a subsidiary of the Corporation; or
- (b) consultants who are engaged to provide services to the Corporation or a subsidiary of the Corporation under a written contract and spend or will spend a significant amount of time and attention on the affairs and business of the Corporation or its subsidiaries.

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<sup>1</sup> The Amended and Restated Stock Option Plan (2006) replaced the Stock Option Plan (1995) effective May •, 2006 and reflects the adoption of a “rolling” plan rather than a plan with a fixed maximum number of common shares reserved for issuance pursuant to stock options. The amendment was approved by the Toronto Stock Exchange on •, 2006.

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#### 4. **Granting of Stock Options**

The Board of Directors of the Corporation may from time to time grant Stock Options to Eligible Optionees. At the time a Stock Option is granted, the Board of Directors shall determine the number of Common Shares of the Corporation purchasable under the Stock Option, the date when the Stock Option is to become effective and, subject to the other provisions of this Plan, all other terms and conditions of the Stock Option. An Eligible Optionee may hold more than one Stock Option at any time, provided, however, the Stock Options granted, together with all of the Corporation's other previously established or proposed security based compensation arrangements, may not result at any time in:

- (a) the aggregate number of Common Shares reserved for issuance to any one person exceeding 5% of the outstanding issue;
- (b) the issuance to any one insider of the Corporation and such insider's associates (as defined in the *Securities Act* (Ontario)), within any one year period of an aggregate number of Common Shares exceeding 5% of the outstanding issue;
- (c) the aggregate number of Common Shares reserved for issuance to insiders exceeding 10% of the outstanding issue; or
- (d) [the issuance to insiders, within a one year period, of an aggregate number of Common Shares exceeding 10% of the outstanding issue].

The terms "insider" and "security based compensation arrangement" shall have the meaning given in the TSX policies relating to security based compensation arrangements and the term "outstanding issue" means the number of Common Shares issued and outstanding, on a non-diluted basis, immediately prior to a particular share issuance, excluding Common Shares issued pursuant to security based compensation arrangements of the Corporation over the preceding one year period.

#### 5. **Exercise Price**

The exercise price of each Stock Option shall be determined in the discretion of the Board of Directors of the Corporation at the time of the granting of the Stock Option, provided that the exercise price shall not be lower than the "Market Price." "Market Price" shall mean the closing price of the Common Shares on the TSX on the trading day immediately prior to the date the Stock Option is granted, or, if there is no reported trade of the Common Shares on the TSX on such date, the arithmetic average of the closing bid and the closing ask for the Common Shares on the TSX on such date; provided that in the event the Common Shares are not listed on the TSX but are listed on another stock exchange or stock exchanges, the foregoing references to the TSX shall be deemed to be references to such other stock exchange or if more than one, to such one as shall be designated by the Board of Directors of the Corporation and in the event the Common Shares are not listed on any exchange, the Market Price shall be such price as is determined by the Board of Directors, in good faith.

#### 6. **Term and Exercise Periods**

Subject to Section 7 hereof, all Stock Options shall be for a term and exercisable from time to time as determined in the discretion of the Board of Directors of the Corporation at the time of the granting of the Stock Options, provided that (i) no Stock Option shall have a term exceeding ten (10) years, and (ii) where a Stock Option has been granted for a specific service, such Stock Option may be exercisable only after the completion of that service. Without limiting the generality of the foregoing or the discretion of the Board of Directors and subject to Section 7 hereof, the Board of Directors may, by way of example,

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determine that a Stock Option is exercisable only during the term of employment of the Eligible Optionee receiving it or during such term and for a limited period of time after termination of employment, that a Stock Option can be exercisable for a period of time or for its remaining term after the death or incapacity of an Eligible Optionee, that only a portion of a Stock Option is exercisable in a specified period, that the unexercised portion of a Stock Option is "cumulative" so that any portion of a Stock Option exercisable (but not exercised) in a specified period may be exercised in subsequent periods until the Stock Option terminates, or that a Stock Option may provide for early exercise and/or termination or other adjustment in the event of a death of a person and in other circumstances, such as if the Corporation shall resolve to sell all or substantially all of its assets, to liquidate or dissolve, or to merge, amalgamate, consolidate or be absorbed with or into any other corporation, if a take over bid is made for the Common Shares or if any change of control of the Corporation occurs.

7. **Expiry in Certain Circumstances**

In the case of a Stock Option granted to an officer or director of the Corporation in their capacity as such, if such Eligible Optionee ceases to be an officer or director of the Corporation prior to the expiry of the term of the Stock Option (other than in the event of the death or incapacity of the Eligible Optionee), such Stock Option may only be exercised, as to those Common Shares in respect of which the Stock Option has not been exercised, at any time up to and including the earlier of (i) a date three (3) months after the date the Eligible Optionee ceases to be an officer or director of the Corporation; or (ii) the expiry of the term of the Stock Option. Where a Stock Option has been granted to an Eligible Optionee, in the event of the death or incapacity of the Eligible Optionee on or prior to the expiry of the term of the Stock Option, the Stock Option may only be exercised, as to those Common Shares in respect of which the Stock Option has not been exercised, by the legal personal representatives of the Eligible Optionee at any time up to and including the earlier of (i) a date twelve (12) months following the date of the death or incapacity of the Eligible Optionee; or (ii) the expiry of the term of the Stock Option.

8. **Non-Assignability**

Stock Options shall not be assignable or transferable by an Eligible Optionee except for a limited right of assignment to allow the exercise of Stock Options by an Eligible Optionee's legal representative in the event of death or incapacity.

9. **Payment of Exercise Price**

All Common Shares issued pursuant to the exercise of a Stock Option shall be paid for in full at the time of exercise of the Stock Option and prior to the issue of the Common Shares. All Common Shares issued in accordance with the foregoing shall be issued as fully paid and non-assessable Common Shares.

10. **Non-Exercise**

If any Stock Option granted pursuant to the Plan is not exercised for any reason whatsoever, the Common Shares reserved for issuance pursuant to such Stock Option shall revert to the Plan and shall be available for other Stock Options, however, at no time shall there be outstanding Stock Options exceeding in the aggregate the number of Common Shares authorized for issuance pursuant to Stock Options under this Plan.

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11. **Adjustment in Certain Circumstances**

In the event:

- (a) of any change in the Common Shares through subdivision, consolidation, reclassification, amalgamation, merger or otherwise; or
- (b) of any stock dividend to holders of Common Shares (other than such stock dividends issued at the option of shareholders of the Corporation in lieu of substantially equivalent cash dividends); or
- (c) that any rights are granted to all or substantially all of the holders of Common Shares to purchase Common Shares at prices substantially below fair market value; or
- (d) that as a result of any recapitalization, merger, consolidation or otherwise the Common Shares are converted into or exchangeable for any other shares;

then in any such case the Board of Directors of the Corporation may make such adjustment in the Plan and in the Stock Options granted under the Plan as the Board of Directors of the Corporation may in its sole discretion deem appropriate to prevent substantial dilution or enlargement of the rights granted to, or available for, holders of Stock Options, and such adjustments may be included in the Stock Options.

12. **Expenses**

All expenses in connection with the Plan shall be borne by the Corporation.

13. **Compliance with Laws**

The Corporation shall not be obligated to issue any shares upon exercise of Stock Options if the issue would violate any law or regulation or any rule of any governmental authority or stock exchange. The Corporation shall not be required to issue, register or qualify for resale any shares issuable upon exercise of Stock Options pursuant to the provisions of a prospectus or similar document, provided that the Corporation shall notify the TSX and any other appropriate regulatory bodies in Canada of the existence of the Plan and the issuance and exercise of Stock Options.

14. **Form of Stock Option Agreement**

All Stock Options shall be issued by the Corporation in a form which meets the general requirements and conditions set forth in this Plan.

15. **Amendments and Termination of Plan**

The Corporation shall retain the right to amend from time to time or to terminate the terms and conditions of the Plan or Stock Options granted thereunder by resolution of the Board of Directors of the Corporation. Any amendments shall be subject to the prior consent of any applicable regulatory bodies, including the TSX. Any amendments to the Plan or Stock Options shall take effect only with respect to Stock Options issued thereafter, provided that they may apply to any unexercised Stock Options previously issued with the mutual consent of the Corporation and the Eligible Optionees holding such Stock Options. In addition to any other amendments which the TSX may permit without shareholder approval, the Board of Directors shall have the power and authority to approve amendments relating to the Plan or to Stock Options, without further approval of the shareholders, to the extent that such amendments relate to:

- 
- (a) altering the terms and conditions of vesting applicable to any Stock Options;
  - (b) extending the term of Stock Options held by a person other than an insider of the Corporation, including in the circumstances set forth in Section 7, provided that the term does not extend beyond ten years from the date of grant;
  - (c) accelerating the expiry date in respect of Stock Options;
  - (d) adding a cashless exercise feature, payable in cash or Common Shares;
  - (e) determining the adjustment provisions pursuant to Section 11 hereof;
  - (f) amending the definitions contained within the Plan; or
  - (g) amending or modifying the mechanics of exercise of the Stock Options.

16. **Administration**

The Plan shall be administered by the Board of Directors. The Board of Directors shall have full and final discretion to interpret the provisions of the Plan and to prescribe, amend, rescind and waive rules and regulations to govern the administration and operation of the Plan. All decisions and interpretations made by the Board of Directors shall be binding and conclusive upon the Corporation and on all persons eligible to participate in the Plan, subject to shareholder approval if required by the TSX.

17. **Delegation of Administration of the Plan**

Subject to the *Business Corporations Act* (Alberta) or any other legislation governing the Corporation, the Board of Directors may delegate to one or more directors of the Corporation, on such terms as it considers appropriate, all or any part of the powers, duties and functions relating to the granting of Stock Options and the administration of the Plan.

18. **Applicable Law**

This Plan shall be governed by and construed in accordance with the laws in force in the Province of Alberta.

19. **Predecessor Plan**

Options outstanding under the predecessor stock option plan of the Corporation will remain in effect and be exercisable in accordance with their terms and will be deemed to be issued under the terms of this Plan.

**TRANSATLANTIC PETROLEUM CORP.**

**and**

**COMPUTERSHARE TRUST COMPANY OF CANADA**

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**WARRANT INDENTURE**

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November 17, 2005

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**This Warrant Indenture**

is made as of November 17, 2005

**Between**

**TRANSATLANTIC PETROLEUM CORP.**, a corporation incorporated under the laws of the Province of Alberta, having an office in Calgary, Alberta (the **Corporation**)

**and**

**COMPUTERSHARE TRUST COMPANY OF CANADA**, a trust company existing under the laws of Canada and authorized to carry on business in Alberta (the **Trustee**)

**Recitals**

- A.** The Corporation is proposing to issue up to 2,500,000 Warrants in the manner herein set forth;
- B.** Each Warrant shall, subject to adjustment, entitle the holder thereof to acquire one Common Share at the price and upon the terms and conditions herein set forth; and
- C.** All acts and deeds necessary have been done and performed to create the Warrants, when issued as provided in this Indenture, as legal, valid and binding upon the Corporation with the benefits and subject to the terms of this Indenture;

The foregoing statements of fact and recitals are made by the Corporation and not the Trustee.

**The parties agree as follows.**

**ARTICLE 1**  
**Interpretation**

**1.1 Definitions**

In this Indenture, including the recitals and schedules hereto and in all indentures supplemental hereto:

“**1933 Act**” means the United States Securities Act of 1933, as amended;

“**Accredited Investor**” means an accredited investor as defined in Rule 501(a) of Regulation D;

“**Adjustment Period**” means the period from and including the Effective Date up to and including the Time of Expiry;

“**affiliates**” has the meaning given thereto in the *Securities Act* (Alberta);

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**“Authorized Investments”** means short term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province of Canada or a Canadian chartered bank (which may include an affiliate or related party of the Trustee) provided that each such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating by Canadian Bond Rating Service.

**“Business Day”** means a day which is not Saturday or Sunday or a legal holiday in the City of Calgary or a day on which the Trustee is closed for business;

**“Change of Control”** means, with respect to the Corporation, the occurrence of any of the following events: (i) a tender offer shall be made and consummated for the ownership of 20% or more of the outstanding voting securities of the Corporation; (ii) the Corporation shall be merged or consolidated with another corporation (or other person) and as a result of such merger or consolidation less than 50% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Corporation, other than affiliates of any party to such merger or consolidation as the same shall have existing immediately prior to such merger or consolidation; or (iii) the Corporation shall sell substantially all of its assets to another corporation (or other person) which is not a wholly owned Subsidiary;

**“Common Shares”** means fully paid and non-assessable Common Shares of the Corporation as presently constituted;

**“Corporate Transaction”** means a transaction resulting in a Change of Control;

**“Corporation”** means TransAtlantic Petroleum Corp.;

**“Corporation’s Auditors”** means the firm of chartered accountants that is duly appointed as auditors of the Corporation;

**“Counsel”** means a barrister or solicitor or a firm of barristers and solicitors retained by the Trustee or retained by the Corporation and acceptable to the Trustee;

**“Current Market Price”** of the Common Shares at any date means the weighted average of the trading prices per share for such shares for any 10 consecutive Trading Days (as selected by the directors of the Corporation) during the period commencing not more than 30 Trading Days before such date on the Toronto Stock Exchange or, if on such date the Common Shares are not listed on the Toronto Stock Exchange, on such stock exchange upon which such shares are listed and as selected by the directors, or, if such shares are not listed on any stock exchange then on such over-the-counter market as may be selected for such purpose by the directors, or, if the Common Shares are not listed on any stock exchange or traded through an over-the-counter market, the Current Market Price is to be determined in good faith by the directors of the Corporation;

**“director”** means a director of the Corporation for the time being and, unless otherwise specified herein, reference to action **by the directors** means action by the directors of the Corporation as a board or, whenever duly empowered, action by any committee of such board;

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**“Dividends Paid in the Ordinary Course”** means cash dividends or distributions declared payable on the Common Shares in any fiscal year of the Corporation to the extent that such cash dividends or distributions do not exceed, in the aggregate, 50% of the consolidated net income of the Corporation before extraordinary items for the period of 12 consecutive months ended immediately prior to the first day of such fiscal year (such consolidated net income and extraordinary items to be shown in the audited consolidated financial statements of the Corporation for such period of 12 consecutive months or if there are no audited consolidated financial statements for such period, computed in accordance with generally accepted accounting principles, consistent with those applied in the preparation of the most recent audited consolidated financial statements of the Corporation);

**“Effective Date”** means the date of this Indenture;

**“Exercise Date”** means, with respect to any Warrant, the date on which the Warrant Certificate representing such Warrant is surrendered for exercise in accordance with the provisions of Article 3;

**“Exercise Price”** with respect to the exercise of any Warrant means \$1.05 in lawful money of the United States per Common Share, unless such price shall have been adjusted in accordance with the provisions of Article 4, in which case it shall mean the adjusted price in effect at such time;

**“Expiry Date”** means November 17, 2007, subject to adjustment in accordance with Section 3.4, in which case it shall mean the accelerated expiry date.

**“Issue Date”** means, in respect of each Warrant, the date upon which the Warrant is issued by the Corporation so that it is considered outstanding for the purposes of this Indenture;

**“person”** means an individual, body corporate, partnership, trust, trustee, executor, administrator, legal representative or any unincorporated organization;

**“Regulation D”** means Regulation D under the 1933 Act;

**“Regulation S”** means Regulation S under the 1933 Act;

**“Shareholder”** means a holder of record of one or more Common Shares;

**“Subsidiary of the Corporation”** or **“Subsidiary”** means any corporation or other person (other than an individual) of which more than 50% of the outstanding voting securities are owned, directly or indirectly, by or for the Corporation, provided that the ownership of such securities confers the right to elect at least a majority of the board of directors (or persons in a similar position of fiduciary responsibility) of such corporation or other person (other than an individual) and includes any entity in like relation to a Subsidiary;

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“**this Warrant Indenture, this Indenture, herein, hereby**” and similar expressions mean and refer to this Indenture and any indenture, deed or instrument supplemental hereto; and the expressions “**Article, Section subsection**” and “**paragraph**” followed by a number mean and refer to the specified article, section, subsection or paragraph of this Indenture;

“**Time of Expiry**” means 5:30 p.m., Calgary time, on the Expiry Date;

“**Trading Day**” means, with respect to a stock exchange, a day on which such exchange is open for the transaction of business and with respect to the over-the-counter market means a day on which the Toronto Stock Exchange is open for the transaction of business;

“**Trustee**” or “**Warrant Trustee**” means Computershare Trust Company of Canada or its successors from time to time in the trust hereby created;

“**United States**” means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia;

“**Units**” means the units of the Corporation, each consisting of one Common Share and one-half of one Warrant, offered pursuant to the Underwriting Agreement dated November 17, 2005 between the Corporation and Canaccord Capital Corporation and Quest Securities Corporation.

“**U.S. Person**” has the meaning set forth in Regulation S and includes, with certain exceptions, (i) any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. Person; (iv) any trust of which any trustee is a U.S. Person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) any partnership or corporation if (A) organized or incorporated under the laws of any jurisdiction other than the United States and (B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the 1933 Act, unless it is organized or incorporated, and owned, by Accredited Investors who are not natural persons, estates or trusts;

“**Warrant Agency**” means either of the principal office of the Trustee in the City of Calgary and the principal office of the Trustee in the City of Toronto or such other place as may be designated in accordance with subsection 3.1(c);

“**Warrant Certificate**” means a certificate issued on or after the Effective Date to evidence Warrants;

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“**Warrantholder**”, or “**holder**” without reference to Common Shares, means the person who is the registered owner of Warrants as shown on the register maintained at the Warrant Agency by the Trustee in accordance with this Indenture;

“**Warrantholders’ Request**” means an instrument signed in one or more counterparts by Warrantholders entitled to acquire in the aggregate not less than 10% of the aggregate number of Common Shares which could be acquired pursuant to all Warrants then unexercised and outstanding, requesting the Trustee to take some action or proceeding specified therein;

“**Warrants**” means the Warrants issued and certified hereunder and for the time being outstanding entitling the holder to acquire Common Shares; and

“**written order of the Corporation, written request of the Corporation, written consent of the Corporation, written notice of the Corporation**” and “**certificate of the Corporation**” mean, respectively, a written order, request, consent, notice and certificate signed in the name of the Corporation by any director or officer of the Corporation, and may consist of one or more instruments so executed.

## **1.2 Gender and Number**

Unless herein otherwise expressly provided or unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

## **1.3 Interpretation not Affected by Headings, etc.**

The division of this Indenture into Articles and Sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Indenture.

## **1.4 Day not a Business Day**

In the event that any day on or before which action is required to be taken hereunder is not a Business Day, then such action shall be required to be taken at or before the requisite time on the next succeeding day that is a Business Day.

## **1.5 Time of the Essence**

Time shall be of the essence of this Indenture.

## **1.6 Applicable Law**

This Indenture and the Warrant Certificates shall be construed in accordance with the laws of the Province of Alberta and shall be treated in all respects as Alberta contracts.

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### **1.7 Language**

The parties hereto confirm their express wish that this Indenture and all documents and agreements directly or indirectly relating thereto be drawn up in the English language. Notwithstanding such express wish, the parties agree that any such document or agreement, or any part thereof or of this Indenture, may be drawn up in the French language.

Les parties reconnaissent leur volonté expresse que le présent acte de fiducie ainsi que tous les documents et contrats s'y rattachant directement ou directement soient rédigés en anglais. Nonobstant cette volonté expresse, les parties conviennent que tout document ou contrat, ou toute partie de ces derniers ou du présent acte de fiducie, puissent être rédigés en français.

### **1.8 Severability**

In the event that any provision under this Indenture is determined to be invalid or unenforceable in any respect, such determination will not affect the provision in any other respect or any other provision under this Indenture, all of which will remain in full force and effect.

### **1.9 Conflicts**

In the event there is any conflict between this Indenture and any Warrant Certificate, the provisions under this Indenture will govern and prevail.

## **ARTICLE 2 Issue of Warrants**

### **2.1 Issue of Warrants**

Up to 2,500,000 Warrants are hereby created and authorized to be issued in accordance with the terms hereof. Each Warrant entitles the holder thereof, upon exercise, together with the payment of the Exercise Price, to acquire one Common Share, subject to adjustment in accordance with Article 4, at any time after the Issue Date and ending at the Time of Expiry.

### **2.2 Form and Terms of Warrants**

- (a) The Warrant Certificates (including all replacements issued in accordance with this Indenture) shall be substantially in the form set out in Schedule A hereto, shall be dated as of the date of this Indenture (regardless of the Issue Date), shall bear such legends and distinguishing letters and numbers as the Corporation may, with the approval of the Trustee, prescribe, and shall be issuable in any denomination excluding fractions.
- (b) The Warrant Certificates may be engraved, printed, lithographed or partly in one form and partly in another as the Corporation with the approval of the Trustee may determine. No change in the Warrant Certificate shall be required by reason of any adjustment made pursuant to Article 4 in the number or class of Common Shares or other securities to which a holder is entitled pursuant to the exercise of the Warrants.

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- (c) No fractional Warrants shall be issued or otherwise provided for hereunder.
  - (d) The number of Common Shares which may be purchased pursuant to the exercise of Warrants and the Exercise Price payable therefor shall be adjusted in the events and in the manner specified in Article 4.
  - (e) The expiry date for the exercise of the Warrants may be adjusted in the event and in the manner specified in Section 3.4.
  - (f) Each Warrant shall entitle the holder thereof to such other rights and privileges as are set forth in this Indenture.

### **2.3 Warrantholder not a Shareholder**

Nothing in this Indenture or in the holding of a Warrant or Warrant Certificate or otherwise, shall, in itself, confer or be construed as conferring upon a Warrantholder as such any right or interest whatsoever as a Shareholder or as any other shareholder of the Corporation, including, but not limited to, the right to vote at, to receive notice of, or to attend, meetings of Shareholders or any other proceedings of the Corporation, or the right to receive dividends and other distributions except as may be provided in this Indenture or the Warrant Certificates.

### **2.4 Warrants to Rank *pari passu***

All Warrants shall rank *pari passu*, whatever may be the actual Issue Date thereof.

### **2.5 Signing of Warrant Certificates**

The Warrant Certificates shall be signed by any one director or officer of the Corporation. The signature of any such director or officer may be mechanically reproduced in facsimile and Warrant Certificates bearing such facsimile signature shall be binding upon the Corporation as if it had been manually signed by such director or officer. Notwithstanding that any of the persons whose manual or facsimile signature appears on any Warrant Certificate as a director or officer may no longer be appointed or hold office at the date of such Warrant Certificate or at the date of certification or delivery thereof, any Warrant Certificate signed as aforesaid shall, subject to Section 2.6, be valid and binding upon the Corporation and the holder thereof shall be entitled to the benefits of this Indenture.

### **2.6 Certification by the Trustee**

- (a) No Warrant Certificate shall be issued or, if issued, shall be valid for any purpose or entitle the holder to the benefit hereof until it has been certified by manual signature by or on behalf of the Trustee and such certification by the Trustee upon any Warrant Certificate shall be conclusive evidence as against the Corporation that the Warrant Certificate so certified has been duly issued hereunder and that the holder is entitled to the benefits hereof.
- (b) Warrant Certificates shall be certified by, or on behalf of, the Trustee upon the written order of the Corporation and delivered by the Trustee to the Corporation in accordance with the written direction of the Corporation. The certification of

the Trustee on Warrant Certificates issued hereunder shall not be construed as a representation or warranty by the Trustee as to the validity of this Indenture or the Warrant Certificates (except the due certification thereof) and the Trustee shall in no respect be liable or answerable for the use made of the Warrant Certificate or any of them or of the consideration therefor except as otherwise specified herein. The countersignature of the Trustee will, however, be a representation and warranty of the Trustee that the Warrant Certificate has been duly countersigned by or on behalf of the Trustee pursuant to the provisions of this Indenture.

**2.7 Issue in Substitution for Warrant Certificates Lost, etc.**

- (a) In the event that any Warrant Certificate shall become mutilated or be lost, destroyed or stolen, the Corporation, subject to applicable law, shall issue and thereupon the Trustee shall certify and deliver, a new Warrant Certificate of like tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and upon cancellation of such mutilated Warrant Certificate, or in lieu of and in substitution for such lost, destroyed or stolen Warrant Certificate, and the substituted Warrant Certificate shall be in a form approved by the Trustee and the Warrants evidenced thereby shall be entitled to the benefits hereof and shall rank equally in accordance with its terms with all other Warrants issued or to be issued hereunder.
- (b) The applicant for the issue of a new Warrant Certificate pursuant to this Section 2.7 shall bear the cost of the issue thereof and in case of loss, destruction or theft shall, as a condition precedent to the issue thereof, furnish to the Corporation and to the Trustee such evidence of ownership and of the loss, destruction or theft of the Warrant Certificate so lost destroyed or stolen as shall be satisfactory to the Corporation and to the Trustee each in their sole discretion, and such applicant also be required to furnish an indemnity or security in amount and form satisfactory to the Corporation and the Trustee each in their discretion and shall pay the reasonable charges of the Corporation and the Trustee in connection therewith.

**2.8 Exchange of Warrant Certificates**

- (a) Warrant Certificates representing Warrants to acquire any specified number of Common Shares may, upon compliance with the reasonable requirements of the Trustee, be exchanged for another Warrant Certificate or Warrant Certificates entitling the holder thereto to acquire in the aggregate the same number of Common Shares as may be acquired under the Warrant Certificate or Warrant Certificates so exchanged. Upon compliance with the reasonable requirements of the Trustee and the terms and conditions hereof, the Corporation will sign, and the Trustee will countersign, all Warrant Certificates necessary to carry out these exchanges.
- (b) Warrant Certificates may be exchanged only at a Warrant Agency or at any other place that is designated by the Corporation with the approval of the Trustee. Any Warrant Certificate tendered for exchange shall be cancelled by the Trustee.

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## 2.9 Transfer of Warrants

- (a) Subject to subsection 2.9(b) below and such reasonable requirements as the Trustee may prescribe and all applicable securities legislation and requirements of regulatory authorities, the Warrants may be transferred on the register kept at the Warrant Agency by the Warrantholder (or its legal representatives or its attorney duly appointed by an instrument in writing in form and manner of execution satisfactory to the Trustee) only upon the surrendering of the relevant Warrant Certificate with the transfer form forming part thereof duly completed and signed. After receiving the surrendered Warrant Certificate(s) and upon the person surrendering the same meeting the requirements set forth above, the Trustee shall issue to the transferee a Warrant Certificate representing the Warrants transferred.
- (b) No transfer of a Warrant shall be valid (i) unless made in accordance with the provisions hereof, (ii) until, upon compliance with such reasonable requirements as the Trustee may prescribe, such transfer is recorded on the register maintained by the Trustee pursuant to subsection (a) of this Section 2.9, (iii) unless such registration shall be noted on the Warrant Certificate by the Trustee, and (iv) until all governmental or other charges arising by reason of such transfer have been paid.
- (c) The Warrants may not be offered, sold or transferred in the United States or to or for the account or benefit of a U.S. Person unless an exemption from registration under the 1933 Act and applicable state securities laws is available and the Warrantholder has presented to the Corporation evidence of the availability of the exemption satisfactory to the Corporation.
- (d) Warrants bearing the legend set forth in Section 2.11 may not be transferred except pursuant to registration or compliance with exemptions therefrom under the 1933 Act and all applicable state securities laws, and the Trustee agrees not to register any transfer of the Warrants so legended unless, in addition to the other requirements set forth herein:
  - (i) the Warrantholder has executed and delivered to the Trustee a declaration in the form attached as Schedule B hereto (or as the Corporation may otherwise prescribe) to the effect that the transfer is being made pursuant to Rule 904 of Regulation S under the 1933 Act, and in such case the Warrant Certificate issued to the transferee shall not include the legend set forth in Section 2.10 unless the Corporation has, prior to the issuance thereof, informed the Trustee that it has ceased to be a “**foreign issuer**” as defined in Rule 902 under the 1933 Act; or
  - (ii) the Warrantholder has delivered to the Trustee and the Corporation an opinion of counsel to the effect that the transfer is in compliance with the requirements of the 1933 Act and all applicable state securities laws, and the Corporation has confirmed in writing to the Trustee that such opinion is satisfactory to the Corporation, and in such case the Warrant Certificate issued to the transferee shall include the legend set forth in Section 2.11 unless such opinion states that the legend is no longer required; or

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- (iii) the Corporation has confirmed in writing to the Trustee that it has received other evidence satisfactory to it that the transfer is in compliance with the requirements of the 1933 Act and all applicable state securities laws, and has instructed the Trustee regarding the inclusion or omission of the legend set forth in Section 2.11 on the Warrant Certificate issued to the transferee.

## **2.10 Canadian Legends**

Each Warrant Certificate and all certificates representing Common Shares issued upon the exercise of such Warrants in accordance with Article 3 hereof (and each Warrant Certificate or Common Share certificate issued in exchange therefor or in substitution on transfer thereof) prior to March 18, 2006 shall be overprinted with the following legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE MARCH 18, 2006.

In addition, each certificate representing Common Shares to be overprinted with the foregoing legend must also be overprinted with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TORONTO STOCK EXCHANGE (“**TSX**”); HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF TSX SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT “**GOOD DELIVERY**” IN SETTLEMENT OF TRANSACTIONS ON TSX.

## **2.11 U.S. Legends**

The Trustee acknowledges that the Warrants and the Common Shares issuable upon the exercise of such Warrants have not been and will not be registered under the 1933 Act or applicable state securities laws. Each Warrant Certificate originally issued to a U.S. Person or a person in the United States or transferred to a U.S. Person or a person in the United States and all certificates representing Common Shares issued upon the exercise of any Warrants pursuant to box B or box C of the exercise form attached to the Warrant Certificate (and each Warrant Certificate or Common Share certificate issued in exchange therefor or in substitution on transfer thereof) shall be overprinted with the following legend:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”). THE HOLDER HEREOF, BY

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PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, OR (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF PARAGRAPH (C) OR (D), THE SELLER FURNISHES TO THE CORPORATION AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION TO SUCH EFFECT. PROVIDED THAT THE CORPORATION IS A "FOREIGN ISSUER" WITHIN THE MEANING OF REGULATION S AT THE TIME OF SALE AND THESE SECURITIES ARE BEING SOLD IN COMPLIANCE WITH RULE 904 OF REGULATION S, A NEW CERTIFICATE BEARING NO LEGEND MAY BE OBTAINED FROM COMPUTERSHARE TRUST COMPANY OF CANADA, AS REGISTRAR AND TRANSFER AGENT, UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO COMPUTERSHARE TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT SUCH SALE IS BEING MADE IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT;

In addition, each certificate representing Common Shares to be overprinted with the foregoing legend must also be overprinted with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TORONTO STOCK EXCHANGE ("TSX"); HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF TSX SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT "**GOOD DELIVERY**" IN SETTLEMENT OF TRANSACTIONS ON TSX.

provided, that the legend may be removed from the Warrants in the circumstances described in subsection 2.9(d); and

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provided, that if, at any time the Corporation is a foreign issuer as defined in Regulation S, the underlying Common Shares are being sold in compliance with the requirements of Rule 904 of Regulation S and in compliance with local laws and regulations, the legend may be removed by providing a declaration to the registrar and transfer agent for the underlying Common Shares in the form attached as Schedule B hereto (or as the Corporation may prescribe from time to time); and

provided, further, that if any of the underlying Common Shares are being sold pursuant to Rule 144 of the 1933 Act, the legend may be removed by delivery to the registrar and transfer agent for the underlying Common Shares of an opinion of counsel, of recognized standing in form and substance satisfactory to the Corporation, to the effect that such legend is no longer required under applicable requirements of the 1933 Act or state securities laws.

#### **2.12 Charges for Exchange and Transfer**

Except as otherwise herein provided, the Trustee may charge to the holder requesting an exchange or transfer a reasonable sum for each new Warrant Certificate issued in exchange for Warrant Certificate(s), and payment of such charges and reimbursement of the Trustee or the Corporation for any and all stamp taxes or governmental or other charges required to be paid shall be made by such holder as a condition precedent to such exchange.

#### **2.13 Registration of Warrants**

The Trustee shall keep at the Warrant Agency: (i) a register of Warrantholders in which shall be entered in alphabetical order the names and addresses of the holders of Warrants and particulars of the Warrants held by them and (ii) a register of transfers in which all transfers of Warrants and the date and other particulars of each transfer shall be entered. Branch registers shall also be kept at such other place or places, if any, as the Corporation, with the approval of the Trustee, may designate. Such registers will at all reasonable times be open for inspection by the Corporation and/or any Warrantholder.

#### **2.14 Transferee Entitled to Registration**

The transferee of a Warrant shall, after the transfer form attached to the Warrant Certificate is duly completed and the Warrant Certificate and form of transfer are lodged with the Trustee, and upon compliance with all other conditions in that regard required by this Indenture and by all applicable securities legislation and requirements of regulatory authorities, be entitled to have his name entered on the register as the owner of such Warrant free from all equities or rights of set-off or counterclaim between the Corporation and his transferor or any previous Warrantholder of such Warrant, save in respect of equities of which the Corporation or the transferee is required to take notice by statute or by order of a court of competent jurisdiction.

#### **2.15 Registers Open for Inspection**

The registers hereinbefore referred to shall be open at the office of the Trustee during normal business hours on each Business Day and upon reasonable written notice for inspection by the Corporation, the Trustee or any Warrantholder. The Trustee shall, from time to time when requested to do so by the Corporation, furnish the Corporation with a list of the names and

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addresses of Warrantholders entered in the register kept by the Trustee showing the number of Warrants and the number of Common Shares which may then be acquired upon the exercise of the Warrants held by each such Warrantholder.

## **2.16 Ownership of Warrants**

- (a) The Corporation and the Trustee may deem and treat the registered Warrantholder of any Warrant Certificate as the absolute owner of the Warrant represented thereby for all purposes, and the Corporation and the Trustee shall not be affected by any notice or knowledge to the contrary, except where the Corporation or the Trustee is required to take notice by statute or by order of a court of competent jurisdiction. For greater certainty, subject to applicable law, neither the Corporation nor the Trustee will be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Warrant, and may transfer any Warrant on the direction of the person registered as Warrantholder thereof, whether named as trustee or otherwise, as though that person were the beneficial owner thereof.
- (b) Subject to the provisions of this Indenture and applicable law, each Warrantholder shall be entitled to the rights and privileges attaching to the Warrants held thereby. The exercise of the Warrants in accordance with the terms hereof and the receipt by any such Warrantholder of Common Shares pursuant thereto shall be a good discharge to the Corporation and the Trustee with respect to such Warrants and neither the Corporation nor the Trustee shall be bound to inquire into the title of any such holder.

## **ARTICLE 3**

### **Exercise of Warrants**

## **3.1 Method of Exercise of Warrants**

- (a) Subject to Section 3.9, the holder of any Warrant may exercise the right evidenced thereby conferred on such holder to acquire Common Shares by surrendering, prior to the Time of Expiry, to the Trustee at a Warrant Agency:
  - (i) the Warrant Certificate representing such Warrant, with a duly completed and executed exercise form in the form attached to the Warrant Certificate; and
  - (ii) a certified cheque or bank draft payable to or to the order of the Corporation (or payment in such other form as the Trustee may accept), in the amount of the aggregate Exercise Price of such Warrants being exercised.

A Warrant Certificate with the duly completed and executed exercise form referred to in this subsection 3.1(a) shall be deemed to be surrendered only upon personal delivery thereof or, if sent by mail or other means of transmission, upon actual receipt thereof at, in each case, a Warrant Agency or such other place or

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places that may be designated by the Corporation with the approval of the Trustee, provided that such Warrant Certificate is accompanied by the requisite payment of the aggregate Exercise Price for the Warrants represented thereby that are being exercised.

- (b) Any exercise form referred to in subsection 3.1(a) shall be signed by the Warrantholder or his executors, administrators or other legal representatives or his attorney duly appointed (such persons being obligated to provide the Trustee at the Warrant Agency with proof satisfactory to the Trustee of his or her authority to act on behalf of the Warrantholder) and shall specify:
- (i) the number of Common Shares which the holder wishes to acquire (being not more than those which the holder is entitled to acquire pursuant to the Warrant Certificate(s) surrendered);
  - (ii) the person or persons in whose name or names such Common Shares are to be issued, and if such persons are individuals, the relevant social insurance numbers;
  - (iii) the address or addresses of such person or persons;
  - (iv) the number of Common Shares to be issued to each such person if more than one is so specified; and
  - (v) that the Warrantholder represents, warrants and certifies as set forth in one of box A, box B or box C of the exercise form.

If any of the Common Shares subscribed for are to be issued to a person or persons other than the Warrantholder, the Warrantholder shall pay to the Corporation or the Trustee on behalf of the Corporation, all applicable transfer or similar taxes and the Corporation shall not be required to issue or deliver certificates evidencing Common Shares unless or until such Warrantholder shall have paid to the Corporation, or the Trustee on behalf of the Corporation, the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid or that none is due.

- (c) In connection with the exchange of Warrant Certificates and exercise of Warrants and compliance with such other terms and conditions hereof as may be required, the Corporation has appointed the principal office of the Trustee in each of Calgary and Toronto as an agency at which Warrant Certificates may be surrendered for exchange or at which Warrants may be exercised and the Trustee has accepted such appointment. The Corporation shall give notice to the Trustee of any change of the Warrant Agency.

### **3.2 Effect of Exercise of Warrants**

- (a) Upon compliance by the holder of any Warrant Certificate with the provisions of Section 3.1, and subject to Section 3.3, the Common Shares subscribed for shall

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be deemed to have been issued as fully paid and non-assessable and the person or persons to whom such Common Shares are to be issued shall be deemed to have become the holder or holders of record of such Common Shares on the Exercise Date unless the transfer registers of the Corporation shall be closed on such date, in which case the Common Shares subscribed for shall be deemed to have been issued and such person or persons deemed to have become the holder or holders of record of such Common Shares, on the date on which such transfer registers are reopened.

- (b) Within five Business Days after the Exercise Date of a Warrant as set forth above, the Corporation shall cause to be mailed to the person or persons in whose name or names the Common Shares so subscribed for have been issued, as specified in the exercise form completed in connection with the exercise of the Warrants, at the address specified in such exercise form or, if so specified in such exercise form, cause to be delivered to such person or persons at the Warrant Agency where the Warrant Certificate was surrendered, a certificate or certificates for the appropriate number of Common Shares subscribed for.

### **3.3 Partial Exercise of Warrants; Fractions**

- (a) The holder of any Warrants may acquire a number of Common Shares less than the number which the holder is entitled to acquire pursuant to the surrendered Warrant Certificate(s). In the event of any exercise of a number of Warrants less than the number which the holder is entitled to exercise, the holder of the Warrants upon exercise thereof shall, in addition, be entitled to receive, without charge therefor, a new Warrant Certificate(s) in respect of the balance of the Warrants which such holder was entitled to exercise pursuant to the surrendered Warrant Certificate(s) and which were not then exercised.
- (b) Notwithstanding anything herein contained including any adjustment provided for in Article 4, the Corporation shall not be required, upon the exercise of any Warrants, to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of fractional Common Shares, the Corporation shall pay to the holder who would otherwise be entitled to receive fractional Common Shares upon an exercise of Warrants, within 10 Business Days after the date upon which the fractional Common Shares would have been issued, an amount in lawful money of Canada equal to the Current Market Price of the Common Shares as of the Exercise Date multiplied by an amount equal to the fractional interest of Common Shares such holder would otherwise be entitled to receive upon such exercise, provided that the Corporation shall not be required to make any payment, calculated as aforesaid, that is less than \$10.00. The price to be paid shall be provided by the Corporation in writing to the Trustee upon request.

### **3.4 Acceleration of Expiry Date**

- (a) In the event the volume weighted average closing price of the Corporation's Common Shares on the Toronto Stock Exchange is US\$1.40 per share or more for

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a period of 20 consecutive Trading Days at any time during the last 20 months of the original term of the Warrants, the board of directors of the Corporation may elect, by providing a written notice of the Corporation to the Warrantholders at their last known addresses on the records of the Corporation, to accelerate the expiry date for the exercise of all unexercised Warrants.

- (b) The Warrants will expire and cease to be exercisable at the Time of Expiry on the date which is 30 calendar days after the date of mailing or other transmission of such notice by the Corporation to the Warrantholders in accordance with Section 10.2, *provided* that such notice is sent at least four months following the Issue Date.
- (c) For certainty, Warrantholders exercising unexercised Warrants pursuant to this Section 3.4 must do so in compliance with Section 3.1 and the provisions of Section 3 apply *mutatis mutandis*.

### **3.5 Expiration of Warrants**

Immediately after the Time of Expiry, all rights under any Warrant in respect of which the right of acquisition herein and therein provided for shall not have been exercised shall cease and terminate and such Warrant shall be void and of no further force or effect.

### **3.6 Cancellation of Surrendered Warrants**

All Warrant Certificates surrendered to the Trustee pursuant to Sections 2.7, 2.8, 2.9, 3.1, 3.3 and 5.1 shall be cancelled by the Trustee and, after the expiry of any period of retention prescribed by law, destroyed by the Trustee and, upon written request by the Corporation, the Trustee shall furnish to the Corporation a destruction certificate identifying the Warrant Certificates so destroyed, the number of Warrants evidenced thereby and the number of Common Shares which could have been purchased pursuant thereto.

### **3.7 Accounting and Recording**

- (a) The Trustee shall as soon as reasonably practicable account to the Corporation with respect to Warrants exercised. Any monies, securities or other instruments, from time to time received by the Trustee shall be received in trust for and shall be segregated and kept apart by the Trustee in trust for the Corporation.
- (b) The Trustee shall record the particulars of Warrants exercised which shall include the names and addresses of the persons who become holders of Common Shares on exercise and the Exercise Date. Within five Business Days of each Exercise Date, the Trustee shall provide such particulars in writing to the Corporation.

### **3.8 Common Share Certificates**

At the instruction of the Corporation, Common Shares issued in connection with the exercise of the Warrants may bear such legends as may be required by applicable securities regulatory requirements, authorities or stock exchanges, including, without limitation, the Toronto Stock Exchange.

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### 3.9 Prohibition on Exercise by U.S. Persons; Exception

- (a) Warrants may not be exercised in the United States or by or on behalf of a U.S. Person unless the offer of Common Shares pursuant to the Warrants is registered under the 1933 Act or an exemption is available from the registration requirements of the 1933 Act and applicable state securities laws;
- (b) Any holder which exercises a Warrant shall provide to the Corporation and the Trustee, and the Corporation and the Trustee shall be entitled to act and rely thereon, either:
  - (i) a written certification that such holder (i) at the time of exercise of the Warrant is not in the United States; (ii) is not a U.S. Person and is not exercising the Warrant, on behalf of a U.S. Person; and (iii) did not execute or deliver the exercise form for the Warrant in the United States;
  - (ii) a written certification that such holder (i) originally purchased the Warrant on its own behalf or on behalf of a beneficial purchaser (a “**Beneficial Purchaser**”), directly from the Corporation pursuant to the Corporation’s offering of Units at a time when the holder was and any Beneficial Purchaser was an accredited investor, as defined in Rule 501(a) under the 1933 Act (“**Accredited Investor**”); (ii) is exercising the Warrant solely for its own account or for the account of the Beneficial Purchaser, if any, and not on behalf of any other person; and (iii) is, and the Beneficial Purchaser, if any, is, an Accredited Investor on the date of exercise of the Warrant; or
  - (iii) a written opinion of counsel of recognized standing in form and substance satisfactory to the Corporation to the effect that an exemption from the registration requirements of the 1933 Act and applicable state securities laws is available for the issuance of the Common Shares issuable on exercise of the Warrants.
- (c) No certificates representing Common Shares will be registered or delivered to an address in the United States unless the holder of Warrants complies with the requirements set forth in subsection 3.9(b)(ii) or subsection 3.9(b)(iii) and, in the case of subsection 3.9(b)(iii), the Corporation has confirmed in writing to the Trustee that the opinion of counsel is satisfactory to the Corporation.

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**ARTICLE 4**  
**Adjustment of Number of Common Shares**

**4.1 Adjustment of Number of Common Shares**

The acquisition rights as they relate to Common Shares, attaching to the Warrants in effect at any date, and the Exercise Price in respect thereof, shall be subject to adjustment from time to time as follows:

- (a) If and whenever at any time during the Adjustment Period, the Corporation shall:
  - (i) subdivide, redivide or change outstanding Common Shares into a greater number of shares,
  - (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of shares, or
  - (iii) issue Common Shares or securities exchangeable for or convertible into Common Shares at no additional cost to the holders of all or substantially all of the outstanding Common Shares by way of a stock dividend or other distribution (other than the issue of Common Shares to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of Common Shares in lieu of Dividends Paid in the Ordinary Course on the Common Shares),(any of such events in these clauses (i), (ii) and (iii) being called a “**Common Share Reorganization**”), then effective immediately after the record date at which the holders of Common Shares are determined for the purposes of the Common Share Reorganization, the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Common Shares outstanding on such record date before giving effect to such Common Share Reorganization and the denominator of which shall be the number of Common Shares outstanding after giving effect to such Common Share Reorganization (including, in the case where securities exchangeable for or convertible into Common Shares at no additional cost are distributed, the number of Common Shares that would have been outstanding had such securities been exchanged for or converted into Common Shares on such record date). Upon any adjustment to the Exercise Price pursuant to subsection 4.1(a), the number of Common Shares subject to the right of purchase under each Warrant shall be contemporaneously adjusted by multiplying the number of Common Shares which theretofore may have been purchased under such Warrant by a fraction of which the numerator shall be the respective Exercise Price in effect immediately prior to such adjustment and the denominator shall be the respective Exercise Price resulting from such adjustment.
- (b) If and whenever at any time during the Adjustment Period, the Corporation shall fix a record date for the issuance of rights, options or warrants to all or

substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible or exchangeable into Common Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Common Share on such record date, the Exercise Price shall be adjusted immediately after such record date so that it shall equal the amount determined by multiplying the Exercise Price in effect on such record date by a fraction of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered) by such Current Market Price, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase or into which the convertible or exchangeable securities so offered are convertible or exchangeable; any Common Shares owned by or held for the account of the Corporation or any Subsidiary shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that any such rights, options or warrants are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed or to the Exercise Price which would then be in effect based upon the number of Common Shares (or securities convertible or exchangeable into Common Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.

- (c) If and whenever at any time during the Adjustment Period, the Corporation shall fix a record date for the making of a distribution to all or substantially all the holders of its outstanding Common Shares of (i) securities of any class, whether of the Corporation or any other person (other than Common Shares and other than securities distributed to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of such securities in lieu of Dividends Paid in the Ordinary Course on the Common Shares), (ii) rights, options or warrants (excluding those referred to in subsection 4.1(b)), (iii) evidences of its indebtedness or (iv) assets (excluding Dividends Paid in the Ordinary Course) then, in each such case, the Exercise Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Exercise Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date multiplied by the Current Market Price of a Common Share on such record date, less the aggregate fair market value (as determined by the directors, which determination shall be conclusive) of such securities shares, rights, options, warrants, evidences of indebtedness or assets so distributed, and of which the denominator shall be the total number of Common Shares outstanding on such record date multiplied by such Current Market Price; any Common Shares owned by or held for the account of the Corporation or any Subsidiary shall be deemed

not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that such distribution is not so made, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed or to the Exercise Price which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or assets actually is distributed, as the case may be; in clause (iv) of this subsection 4.1(c) the term Dividends Paid in the Ordinary Course shall include the value of any securities or other property or assets distributed in lieu of cash Dividends Paid in the Ordinary Course at the option of Shareholders.

- (d) If and whenever at any time during the Adjustment Period, there is a reclassification of the Common Shares or a capital reorganization of the Corporation (other than as described in subsection 4.1(a)) or a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other body corporate, trust, partnership or other entity, or a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity or a liquidation, dissolution or winding up of the Corporation (any of such events being hereinafter called a “**Capital Reorganization**”), any Warrantholder who has not exercised its right of acquisition prior to the effective date of such Capital Reorganization, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of Common Shares then sought to be acquired by it, the number of shares or other securities or property of the Corporation or of the body corporate, trust, partnership or other entity resulting from such Capital Reorganization, or to which such sale or conveyance may be made, as the case may be, that such Warrantholder would have been entitled to receive on such Capital Reorganization, if, on the record date or the effective date thereof, as the case may be, the Warrantholder had been the registered holder of the number of Common Shares sought to be acquired by it and to which it was entitled to acquire upon exercise of the Warrants. If determined appropriate by the Trustee to give effect to or to evidence the provisions of this subsection 4.1(d), the Corporation, its successor, or such purchasing body corporate, partnership, trust or other entity, as the case may be, shall, prior to or contemporaneously with any such Capital Reorganization, enter into an indenture which shall provide, to the extent possible, for the application of the provisions set forth in this Indenture with respect to the rights and interests thereafter of the Warrantholders to the end that the provisions set forth in this Indenture shall thereafter correspondingly be made applicable, as nearly as may reasonably be, with respect to any shares, other securities or property to which a Warrantholder is entitled on exercise of its acquisition rights thereafter. Any indenture entered into between the Corporation and the Trustee pursuant to the provisions of this subsection 4.1(d) shall be a supplemental indenture entered into pursuant to the provisions of Article 8. Any indenture entered into between the Corporation, any successor to the Corporation or such purchasing body corporate, partnership, trust or other entity and the Trustee shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section 4.1 and which shall apply to successive Capital Reorganizations.

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- (e) Notwithstanding any other provision of this Indenture, in the event of a Corporate Transaction, each Warrant will terminate immediately prior to the specified effective date of the Corporate Transaction, unless the Warrant is assumed by the successor corporation (or person) or its parent corporation (or person) in connection with the Corporate Transaction. Upon approval of a Corporate Transaction by the directors of the Corporation, the Corporation will give notice to each Warrantholder which will set forth terms that permit a Warrantholder to exercise its Warrants on a basis that provides the Warrantholder with the ability to participate in the Corporate Transaction or, failing completion of the Corporate Transaction, to retain all rights under the Warrants in accordance with the terms of this Indenture. A copy of such notice shall be sent to the Warrant Trustee.
- (f) In any case in which this Section 4.1 shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Corporation may defer, until the occurrence of such event, issuing to the holder of any Warrant exercised after such record date and before the occurrence of such event the additional Common Shares or other securities or property issuable upon such exercise by reason of the adjustment required by such event; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Common Shares or other securities or property upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares or other securities or property declared in favour of holders of record of Common Shares or such other securities or property on and after the relevant date of exercise or such later date as such holder would, but for the provisions of this subsection 4.1(f), have become the holder of record of such additional Common Shares or other securities or property pursuant to subsection 4.1(b).
- (g) In any case in which subsections 4.1(a), 4.1(b) or 4.1(c) require that an adjustment be made to the Exercise Price, no such adjustment shall be made if, subject to the prior approval of the Toronto Stock Exchange (or other stock exchange or trading system on which the Common Shares or Warrants are listed for trading), the holders of the outstanding Warrants receive the Common Shares or securities exchangeable for or convertible into Common Shares referred to in subsection 4.1(a), the rights, options or warrants referred to in subsection 4.1(b) or the securities, rights, options, warrants, evidences of indebtedness or assets referred to in subsection 4.1(c), as the case may be, in such kind and number as they would have received if they had been holders of Common Shares on the applicable record date or effective date, as the case may be, by virtue of their outstanding Warrant having then been exercised into Common Shares at the Exercise Price in effect on the applicable record or effective date, as the case may be.
- (h) The adjustments provided for in this Section 4.1 are cumulative and shall, in the case of adjustments to the Exercise Price, be computed to the nearest whole cent

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and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section 4.1, provided that, notwithstanding any other provision of this Section, no adjustment of the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price then in effect; provided, however, that any adjustments which by reason of this subsection 4.1(h) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.

- (i) After any adjustment pursuant to this Section 4.1, the term Common Shares where used in this Indenture shall be interpreted to mean securities of any class or classes which, as a result of such adjustment and all prior adjustments pursuant to this Section 4.1, the Warrantholder is entitled to receive upon the exercise of his Warrant and the number of Common Shares indicated by any exercise made pursuant to a Warrant shall be interpreted to mean the number of Common Shares or other property or securities a Warrantholder is entitled to receive, as a result of such adjustment and all prior adjustments pursuant to this Section 4.1, upon the full exercise of a Warrant.

#### **4.2 Entitlement to Shares on Exercise of Warrant**

All shares of any class or other securities or property which a Warrantholder is at the time in question entitled to receive on the exercise of its Warrant, whether or not as a result of adjustments made pursuant to this Article 4, shall, for the purposes of the interpretation of this Indenture, be deemed to be shares which such Warrantholder is entitled to acquire pursuant to such Warrant.

#### **4.3 No Adjustment for Stock Options or Warrants**

Anything in this Article 4 to the contrary notwithstanding, no adjustment shall be made in the acquisition rights attached to the Warrants if the issue of Common Shares is being made pursuant to this Indenture, pursuant to any stock option, stock purchase, stock appreciation rights or other employee compensation plan in force from time to time for directors, officers, employees or consultants of the Corporation or any of its Subsidiaries, as the case may be, or pursuant to any warrant outstanding immediately prior to the Effective Date.

#### **4.4 Determination by Corporation's Auditors**

In the event of any question arising with respect to the adjustments provided for in this Article 4, such question shall be conclusively determined by the Corporation's Auditors or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Corporation. Such Auditors or accountants shall have access to all necessary records of the Corporation, and such determination shall be binding upon the Corporation, the Trustee, all Warrantholders and all other persons interested therein (absent manifest error).

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#### **4.5 Proceedings Prior to any Action Requiring Adjustment**

As a condition precedent to the taking of any action which would require an adjustment in any of the acquisition rights pursuant to any of the Warrants, including the number of Common Shares which are to be received upon the exercise thereof, the Corporation shall take any corporate action which may, in the opinion of Counsel, be necessary in order that the Corporation has unissued and reserved in its authorized capital and may validly and legally issue as fully paid and non-assessable all the Common Shares or other securities or property which the holders of such Warrants are entitled to receive on the full exercise thereof in accordance with the provisions hereof.

#### **4.6 Certificate of Adjustment**

The Corporation shall from time to time immediately after the occurrence of any event which requires an adjustment or readjustment as provided in Article 4, deliver a certificate of the Corporation to the Trustee specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment shall be supported by a certificate of the Corporation's Auditors verifying such calculation. When so verified, the Trustee shall forthwith give notice, supplied by the Corporation and at the Corporation's expense, to the Warrantholders specifying the event requiring such adjustment or readjustment and the results thereof including the resulting Exercise Price; provided that, if the Corporation has given notice under Section 4.7 covering all the relevant facts in respect of such event, no such notice need be given under this Section 4.6.

#### **4.7 Notice of Special Matters**

The Corporation covenants with the Trustee that, so long as any Warrant remains outstanding, it will give notice to the Trustee and to the Warrantholders of its intention to fix the record date for any event referred to in subsections 4.1(a), (b), (c) or (d) or the proposed effective date for a Corporate Transaction which may give rise to an adjustment of the Exercise Price. Such notice shall specify the particulars of such event and the record date for such event, provided that the Corporation shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which the notice is given. The notice shall be given in each case not less than 10 Business Days prior to such applicable record date.

#### **4.8 No Action after Notice**

The Corporation covenants with the Trustee that it will not close its transfer books or take any other corporate action which might deprive the holder of a Warrant of the opportunity to exercise its right of acquisition pursuant thereto during the period of 10 Business Days after the giving of the certificate or notices set forth in Sections 4.6 and 4.7 or, in the case of a Corporation Transaction.

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#### **4.9 Protection of Trustee**

Except as provided in Section 9.2, the Trustee:

- (a) shall be entitled to act and rely on any adjustment calculation of the directors or the Corporation's Auditors;
- (b) shall not at any time be under any duty or responsibility to any Warrantholder to determine whether any facts exist which may require any adjustment contemplated by Section 4.1, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making the same;
- (c) shall not be accountable with respect to the validity or value (or the kind or amount) of any Common Shares or of any shares or other securities or property which may at any time be issued or delivered upon the exercise of the rights attaching to any Warrant;
- (d) shall not be responsible for any failure of the Corporation to issue, transfer or deliver Common Shares or certificates for the same upon the surrender of any Warrants for the purpose of the exercise of such rights or to comply with any of the covenants contained in this Article; and
- (e) shall not incur any liability or responsibility whatsoever or be in any way responsible for the consequences of any breach on the part of the Corporation of any of the representations, warranties or covenants herein contained.

#### **4.10 Other Adjustments**

In case the Corporation after the date hereof shall take any action affecting the Common Shares, other than an action described in Article 4 which in the opinion of the directors would have a material adverse affect on the rights of Warrantholders, the Exercise Price and/or the number and/or kind of Common Shares purchasable upon exercise, there shall be an adjustment in such manner, if any, and at such time, by action by the directors subject to the prior consent of the Toronto Stock Exchange, if applicable. Failure of the taking of action by the directors so as to provide for an adjustment prior to the effective date of any action by the Corporation affecting the Common Shares shall be conclusive evidence that the directors have determined that it is equitable to make no adjustment in the circumstances.

### **ARTICLE 5**

#### **Rights and Covenants of The Corporation**

#### **5.1 Optional Purchases by the Corporation**

The Corporation may from time to time purchase by private contract, in the open market, on any stock exchange or otherwise any of the Warrants. Any such purchase shall be made at the lowest price or prices at which, in the opinion of the directors, such Warrants are then obtainable, plus reasonable costs of purchase, and may be made in such manner, from such persons and on such

other terms as the Corporation, in its sole discretion, may determine subject to compliance with all applicable laws. Any Warrant Certificates representing the Warrants purchased pursuant to this Section 5.1 shall forthwith be delivered to and cancelled by the Trustee. No Warrants shall be issued in replacement thereof.

## **5.2 General Covenants**

The Corporation covenants with the Trustee that so long as any Warrants remain outstanding:

- (a) the Warrants, when issued and countersigned as provided in this Indenture, will be valid and enforceable against it in accordance with and subject to the provisions of this Indenture;
- (b) it will reserve and keep available a sufficient number of Common Shares for the purpose of enabling it to satisfy its obligations to issue Common Shares upon the exercise of the Warrants;
- (c) it will cause the Common Shares and the certificates representing the Common Shares from time to time acquired pursuant to the exercise of the Warrants to be duly issued and delivered in accordance with the Warrant Certificates and the terms hereof;
- (d) all Common Shares which shall be issued upon exercise of the right to acquire provided for herein and in the Warrant Certificates shall be fully paid and non-assessable;
- (e) the Corporation will do, or cause to be done, all things necessary to preserve and keep in full force and effect its corporate existence, provided however that (subject to Article 4 and Section 8.2) nothing will prevent the amalgamation, consolidation, merger or sale of, or other business combination involving the Corporation;
- (f) it will use its best efforts to ensure that the Warrants and all Common Shares outstanding or issuable from time to time continue to be or are listed and posted for trading on the Toronto Stock Exchange (or such other Canadian stock exchange acceptable to the Corporation);
- (g) it will perform and carry out all of the acts or things to be done by it as provided in this Indenture;
- (h) it will not close its transfer registers or take any other action which might deprive the Warrantholders of the opportunity of exercising their right of purchase pursuant to the Warrants held by such persons during the period of fourteen days after giving of the notice required by Section 4.7; and
- (i) that it will execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, all other acts, deeds and assurances in law as the Trustee may reasonably require for the better accomplishing and effecting the intentions and provisions of this Indenture.

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### **5.3 Trustee's Remuneration and Expenses**

The Corporation covenants that it will pay to the Trustee from time to time reasonable remuneration for its services hereunder and will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in the administration or execution of the trusts hereby created (including the reasonable compensation and the disbursements of its Counsel and all other advisers and assistants not regularly in its employ) both before any default hereunder and thereafter until all duties of the Trustee hereunder shall be finally and fully performed, except any such expense, disbursement or advance as may arise out of or result from the Trustee's negligence, willful misconduct or bad faith.

### **5.4 Performance of Covenants by Trustee**

If the Corporation shall fail to perform any of its covenants contained in this Warrant Indenture, the Trustee may notify the Warrantholders of such failure on the part of the Corporation or may itself perform any of the covenants capable of being performed by it but, subject to Section 9.2, shall be under no obligation to perform such covenants or to notify the Warrantholders of such performance by it. All sums expended or advanced by the Trustee in so doing shall be repayable as provided in Section 5.3. No such performance, expenditure or advance by the Trustee shall relieve the Corporation of any default hereunder or of its continuing obligations under the covenants herein contained.

## **ARTICLE 6**

### **Enforcement**

### **6.1 Suits by Warrantholders**

- (a) No Warrantholder has the right to institute any action or proceeding or to exercise any other remedy authorized hereunder for the purpose of enforcing any right on behalf of the Warrantholders or for the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or receiver and manager or for a receiving order under the *Bankruptcy and Insolvency Act* (Canada) or to have the Corporation wound up or to file or prove a claim in any liquidation or bankruptcy proceedings, unless the Warrant Trustee has received a Warrantholders' Request directing it to take the requested action and has been provided with sufficient funds or other security and/or such indemnity satisfactory to the Warrant Trustee in respect of the costs, expenses and liabilities that may be incurred by it in so proceeding and the Warrant Trustee has failed to act within a reasonable time thereafter. If the Warrant Trustee has so failed to act, but not otherwise, any Warrantholder acting on behalf of all Warrantholders will be entitled to take any of the proceedings that the Warrant Trustee might have taken hereunder. No Warrantholder has any right in any manner whatsoever to effect, disturb or prejudice the rights hereby created by its action or to enforce any right hereunder or under any Warrant, except subject to the conditions and in the manner herein

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provided. Any money received as a result of a proceeding taken by any Warrantholder hereunder must be forthwith paid to the Warrant Trustee.

- (b) All rights of action under this Indenture may be enforced by the Warrant Trustee without the possession of any of the Warrants or the production thereof on any trial or other proceedings relative thereto.
- (c) The Warrant Trustee shall be entitled and empowered, either in its own name or as Warrant Trustee of an express trust, or as attorney-in-fact for the Warrantholders, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claim of the Warrant Trustee and the Warrantholders allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property. The Warrant Trustee is hereby irrevocably appointed (and the successive respective Warrantholders by taking and holding the same shall be conclusively deemed to have so appointed the Warrant Trustee) the true and lawful attorney-in-fact of the respective Warrantholders or on behalf of the Warrantholders as a class, subject to deduction from any such claims of the amounts of any claims filed by any of the Warrantholders themselves if and to the extent permitted hereunder, for any proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all such acts and things for and on behalf of the Warrantholders, as may be necessary or advisable in the opinion of the Warrant Trustee, in order to have the respective claims of the Warrant Trustee and of the Warrantholders against the Corporation or its property allowed in any such proceeding, and to receive payment of or on account of such claims; provided, however, that nothing contained in this Indenture shall be deemed to give the Warrant Trustee, unless so authorized by extraordinary resolution (as provided in Section 7.11), any right to accept or consent to any plan of reorganization or otherwise by action of any character in such proceeding to waive or change in any way any right of any Warrantholder.
- (d) The Warrant Trustee shall also have the power, but not the obligation, at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Warrantholders.
- (e) Any such suit or proceeding instituted by the Warrant Trustee may be brought in the name of the Warrant Trustee as Warrant Trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the Warrantholders subject to provisions of this Indenture. In any proceeding brought by the Warrant Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Warrant Trustee shall be a party), the Warrant Trustee shall be held to represent all the Warrantholders, and it shall not be necessary to make any Warrantholders parties to any such proceeding.

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## **6.2 Suits by the Corporation**

The Corporation shall have the right to enforce full payment of the Exercise Price for all Common Shares issued by the Corporation to a Warrantholder hereunder and shall be entitled to demand such payment from the Warrantholder or alternatively to instruct the Trustee to cancel the share certificates and amend the securities register accordingly.

## **6.3 Limitation of Liability**

The obligations of the Corporation hereunder are not binding upon, nor shall resort hereunder be had to, the private property of any of the past, present or future directors or Shareholders of the Corporation or any successor to the Corporation or any of the past, present or future officers, employees or agents of the Corporation or any successor to the Corporation, but only the property of the Corporation or any successor to the Corporation shall be bound in respect hereof.

## **6.4 Waiver of Default**

Upon the happening of any default hereunder:

- (a) the holders of not less than 51% of the Warrants then outstanding shall have power (in addition to the powers exercisable by extraordinary resolution as provided in Section 7.10) by requisition in writing to instruct the Trustee to waive any default hereunder and the Trustee shall thereupon waive the default upon such terms and conditions as shall be prescribed in such requisition; or
- (b) the Trustee shall have power to waive any default hereunder upon such terms and conditions as the Trustee may deem advisable, if, in the Trustee's opinion, the same shall have been cured or adequate provision made therefor;

provided that no delay or omission of the Trustee or of the Warrantholders to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein and provided further that no act or omission either of the Trustee or of the Warrantholders in the premises shall extend to or be taken in any manner whatsoever to affect any subsequent default hereunder of the rights resulting therefrom.

## **ARTICLE 7 Meetings Of Warrantholders**

### **7.1 Right to Convene Meetings**

The Trustee may at any time and from time to time, and shall on receipt of a written request of the Corporation or of a Warrantholders' Request and upon receiving sufficient funds to cover any costs and expenses and/or being indemnified to its reasonable satisfaction by the Corporation or by the Warrantholders signing such Warrantholders' Request against the cost which may be incurred in connection with the calling and holding of such meeting, convene a meeting of the Warrantholders. In the event of the Trustee failing to so convene a meeting within 15 days after receipt of such written request of the Corporation or such Warrantholders' Request and sufficient

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funds and/or indemnity given as aforesaid, the Corporation or such Warrantholders, as the case may be, may convene such meeting. Every such meeting shall be held in the City of Calgary, the City of Toronto or at such other place as may be approved or determined by the Trustee.

## **7.2 Notice**

At least 21 day's prior notice of any meeting of Warrantholders shall be given to the Warrantholders in the manner provided for in Section 10.2 and a copy of such notice shall be sent to the Trustee (unless the meeting has been called by the Trustee) and to the Corporation (unless the meeting has been called by the Corporation) in the manner provided for in Section 10.1. Such notice shall state the time when and the place where the meeting is to be held, shall state briefly the general nature of the business to be transacted thereat and shall contain such information as is reasonably necessary to enable the Warrantholders to make a reasoned decision on the matter, but it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Article 7. The notice convening any such meeting may be signed by an appropriate officer of the Trustee or the Corporation or by the Warrantholder or Warrantholders convening the meeting.

## **7.3 Chairman**

An individual (who need not be a Warrantholder) designated in writing by the Trustee shall be chairman of the meeting and if no individual is so designated, or if the individual so designated is not present within 15 minutes from the time fixed for the holding of the meeting, the Warrantholders present in person or by proxy shall choose an individual present to be chairman.

## **7.4 Quorum**

Subject to the provisions of Section 7.11, at any meeting of the Warrantholders a quorum shall consist of Warrantholders present in person or by proxy and entitled to purchase at least 10% of the aggregate number of Common Shares which could be acquired pursuant to all the then outstanding Warrants, provided that at least two persons entitled to vote thereat are personally present. If a quorum of the Warrantholders shall not be present within 30 minutes from the time fixed for holding any meeting, the meeting, if summoned by the Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day, in which case it shall be adjourned to the next following Business Day) at the same time and place and no notice of the adjournment need be given. Any business may be brought before or dealt with at an adjourned meeting which might have been dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting unless a quorum be present at the commencement of business. At the adjourned meeting the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened, notwithstanding that they may not be entitled to acquire at least 10% of the aggregate number of Common Shares which may be acquired pursuant to all then outstanding Warrants.

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### **7.5 Power to Adjourn**

The chairman of any meeting at which a quorum of the Warrantholders is present may, with the consent of the meeting, adjourn any such meeting, and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

### **7.6 Show of Hands**

Every question submitted to a meeting shall be decided in the first place by a majority of the votes given on a show of hands except that votes on an extraordinary resolution shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact.

### **7.7 Poll and Voting**

On every extraordinary resolution, and on any other question submitted to a meeting and after a vote by show of hands, when demanded by the chairman or by one or more of the Warrantholders acting in person or by proxy, a poll shall be taken in such manner as the chairman shall direct. Questions other than those required to be determined by extraordinary resolution shall be decided by a majority of the votes cast on the poll.

On a show of hands, every person who is present and entitled to vote, whether as a Warrantholder or as proxy for one or more absent Warrantholders, or both, shall have one vote. On a poll, each Warrantholder present in person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each whole Common Share which he is entitled to acquire pursuant to the Warrant or Warrants then held or represented by him. A proxy need not be a Warrantholder. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Warrants, if any, held or represented by him.

### **7.8 Regulations**

Subject to compliance with the provisions of this Indenture, the Trustee, or the Corporation with the approval of the Trustee, may from time to time make and from time to time make and vary such regulations as it shall think fit for:

- (a) the setting of the record date for a meeting for the purpose of determining Warrantholders entitled to receive notice of and to vote at the meeting;
- (b) for Warrantholders to appoint a proxy or proxies to represent them and vote for them at any such meeting (and any adjournment thereof) and the manner in which same is to be executed, and for the production of the authority of any persons signing on behalf of the Warrantholder appointing them;

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- (c) the deposit of instruments appointing proxies at such place and time as the Trustee, the Corporation or the Warrantholders convening the meeting, as the case may be, may in the notice convening the meeting direct;
  - (d) the deposit of instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed or sent by facsimile before the meeting to the Corporation or to the Trustee at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting;
  - (e) the form of the instrument of proxy or the manner in which it must be executed; and
  - (f) generally for the calling of meetings of Warrantholders and the conduct of business thereat.

Any regulations so made shall be binding and effective and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only persons who shall be recognized at any meeting as a Warrantholder, or be entitled to vote or be present at the meeting in respect thereof (subject to Section 7.9), shall be Warrantholders, their authorized representatives or attorneys and legal counsel, or proxies of Warrantholders.

#### **7.9 Corporation and Trustee May be Represented**

The Corporation and the Trustee, by their respective directors, officers and employees, and the Counsel for the Corporation and for the Trustee may attend any meeting of the Warrantholders, but shall have no vote thereat, whether in respect of any Warrants held by them or otherwise.

#### **7.10 Powers Exercisable by Extraordinary Resolution**

In addition to all other powers conferred upon them by any other provisions of this Indenture or by law, the Warrantholders shall, subject to the provisions of Section 7.11, have the power, exercisable from time to time by extraordinary resolution:

- (a) to agree to any modification, abrogation, alteration, compromise or arrangement of the rights of Warrantholders or, subject to the consent of the Trustee, the Trustee in its capacity as trustee hereunder or on behalf of the Warrantholders against the Corporation whether such rights arise under this Indenture or the Warrant Certificates or otherwise;
- (b) to amend, alter or repeal any extraordinary resolution previously passed or sanctioned by the Warrantholders;
- (c) to direct or to authorize the Trustee to enforce any of the covenants on the part of the Corporation contained in this Indenture or the Warrant Certificates or to enforce any of the rights of the Warrantholders in any manner specified in such extraordinary resolution or to refrain from enforcing any such covenant or right;

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- (d) to waive, and to direct the Trustee to waive, any default on the part of the Corporation in complying with any provisions of this Indenture or the Warrant Certificates either unconditionally or upon any conditions specified in such extraordinary resolution;
  - (e) to restrain any Warrantholder from taking or instituting any suit, action or proceeding against the Corporation for the enforcement of any of the covenants on the part of the Corporation in this Indenture or the Warrant Certificates or to enforce any of the rights of the Warrantholders;
  - (f) to direct any Warrantholder who, as such, has brought any suit, action or proceeding to stay or to discontinue or otherwise to deal with the same upon payment of the costs, charges and expenses reasonably and properly incurred by such Warrantholder in connection therewith;
  - (g) to assent to any change in or omission from the provisions contained in the Warrant Certificates and this Indenture or any ancillary or supplemental instrument which may be agreed to by the Corporation, and to authorize the Trustee to concur in and execute any ancillary or supplemental indenture embodying the change or omission;
  - (h) with the consent of the Corporation, to remove the Trustee or its successor in office and to appoint a new trustee or trustees to take the place of the Trustee so removed; and
  - (i) to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of shares or other securities of the Corporation.

#### **7.11 Meaning of Extraordinary Resolution**

- (a) The expression extraordinary resolution when used in this Indenture means, subject as hereinafter provided in this Section 7.11 and in Section 7.14, a resolution proposed at a meeting of Warrantholders duly convened for that purpose and held in accordance with the provisions of this Article 7 at which there are present in person or by proxy Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants and passed by the affirmative votes of Warrantholders entitled to acquire not less than  $66\frac{2}{3}\%$  of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution.
- (b) If, at the meeting at which an extraordinary resolution is to be considered, Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants are not present in person or by proxy within 30 minutes after the time appointed for the meeting, then the meeting, if convened by Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case it shall stand

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adjourned to such day, being not less than 15 or more than 60 days later, and to such place and time as may be appointed by the chairman. Not less than five days' prior notice shall be given of the time and place of such adjourned meeting in the manner provided for in Section 10.2. Such notice shall state that at the adjourned meeting the Warrantholders present in person or by proxy shall form a quorum but it shall not be necessary to set forth the purposes for which the meeting was originally called or any other particulars. At the adjourned meeting, the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in subsection 7.11(a) shall be an extraordinary resolution within the meaning of this Indenture notwithstanding that Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants are not present in person or by proxy at such adjourned meeting.

- (c) Votes on an extraordinary resolution shall always be given on a poll and no demand for a poll on an extraordinary resolution shall be necessary.

#### **7.12 Powers Cumulative**

Any one or more of the powers or any combination of the powers in this Indenture stated to be exercisable by the Warrantholders by extraordinary resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers or any combination of powers from time to time shall not be deemed to exhaust the right of the Warrantholders to exercise such power or powers or combination of powers then or thereafter from time to time.

#### **7.13 Minutes**

Minutes of all resolutions and proceedings at every meeting of Warrantholders shall be made and duly entered in books to be provided from time to time for that purpose by the Corporation, and any such minutes as aforesaid, if signed by the chairman or the secretary of the meeting at which such resolutions were passed or proceedings had shall be prima facie evidence of the matters therein stated and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes shall have been made shall be deemed to have been duly convened and held, and all resolutions passed thereat or proceedings taken shall be deemed to have been duly passed and taken.

#### **7.14 Instruments in Writing**

All actions which may be taken and all powers that may be exercised by the Warrantholders at a meeting held as provided in this Article 7 may also be taken and exercised by Warrantholders entitled to acquire at least 66 2/3% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by such Warrantholders in person or by attorney duly appointed in writing, and the expression extraordinary resolution when used in this Indenture shall include an instrument so signed.

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**7.15 Binding Effect of Resolutions**

Every resolution and every extraordinary resolution passed in accordance with the provisions of this Article 7 at a meeting of Warrantholders shall be binding upon all the Warrantholders, whether present at or absent from such meeting, and every instrument in writing signed by Warrantholders in accordance with Section 7.14 shall be binding upon all the Warrantholders, whether signatories thereto or not, and each and every Warrantholder and the Trustee (subject to the provisions for indemnity herein contained) shall be bound to give effect accordingly to every such resolution and instrument in writing.

**7.16 Holdings by Corporation Disregarded**

In determining whether Warrantholders holding Warrant Certificates evidencing the entitlement to acquire the required number of Common Shares are present at a meeting of Warrantholders for the purpose of determining a quorum or have concurred in any consent, waiver, extraordinary resolution, Warrantholders' Request or other action under this Indenture, Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation shall be disregarded in accordance with the provisions of Section 10.7.

**ARTICLE 8**  
**Supplemental Indentures**

**8.1 Provision for Supplemental Indentures for Certain Purposes**

From time to time the Corporation (when authorized by action of the directors) and the Trustee may, subject to the provisions hereof, and they shall, when so directed in accordance with the provisions hereof, execute and deliver by their proper directors or officers, indentures or instruments supplemental hereto, which thereafter shall form part hereof, for any one or more or all of the following purposes:

- (a) setting forth any adjustments resulting from the application of the provisions of Article 4;
- (b) adding to the provisions hereof such additional covenants and enforcement provisions as, in the opinion of Counsel, are necessary or advisable in the premises, provided that the same are not in the opinion of the Trustee relying on the advice of Counsel, prejudicial to the interests of the Warrantholders;
- (c) giving effect to any extraordinary resolution passed as provided in Article 7;
- (d) making such provisions not inconsistent with this Indenture as may be necessary or desirable with respect to matters or questions arising hereunder or for the purpose of obtaining or maintaining a listing or quotation of the Warrants on any stock exchange, provided that such provisions are not, in the opinion of the Trustee relying on the advice of Counsel, prejudicial to the interests of the Warrantholders;

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- (e) modifying any of the provisions of this Indenture, including relieving the Corporation from any of the obligations, conditions or restrictions herein contained, provided that such modification or relief shall be or become operative or effective only if, in the opinion of the Trustee relying on the advice of Counsel, such modification or relief in no way prejudices any of the rights of the Warrantholders or of the Trustee, and provided further that the Trustee may in its sole discretion decline to enter into any such supplemental indenture which in its opinion may not afford adequate protection to the Trustee when the same shall become operative; and
  - (f) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions herein, provided that in the opinion of the Trustee relying on the advice of Counsel the rights of the Trustee and of the Warrantholders are in no way prejudiced thereby.

Notwithstanding anything to the contrary in this Indenture, no supplement or amendment to this Indenture or to the provisions of the Warrants may be made without the prior consent of the Toronto Stock Exchange (or such other stock exchange on which the Common Shares may be listed for trading), if required.

## **8.2 Successor Corporations**

In the case of the consolidation, amalgamation, merger or transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another person, trust, corporation, partnership or similar entity (successor entity), the successor entity resulting from such consolidation, amalgamation, merger or transfer (if not the Corporation) shall expressly assume, by supplemental indenture satisfactory in form to the Trustee and executed and delivered to the Trustee, the due and punctual performance and observance of each and every covenant and condition of this Indenture to be performed and observed by the Corporation unless all of the Warrants have terminated in accordance with Section 4.1(e).

## **ARTICLE 9 Concerning The Trustee**

### **9.1 Trust Indenture Legislation**

- (a) If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of any legislation applicable to this Indenture, such mandatory requirement shall prevail.
- (b) The Corporation and the Trustee agree that each will, at all times in relation to this Indenture and any action to be taken hereunder, observe and comply with and be entitled to the benefits of all legislation applicable to this Indenture.

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**9.2 Rights and Duties of Trustee**

- (a) In the exercise of the rights and duties prescribed or conferred by the terms of this Indenture, the Trustee shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Trustee shall be liable only for its own negligent action, its own negligent failure to act, or its own willful misconduct or bad faith or the breach of its standard of care.
- (b) The obligation of the Trustee to commence or continue any act, action or proceeding for the purpose of enforcing any rights of the Trustee or the Warrantholders hereunder shall be conditional upon the Warrantholders furnishing, when required by notice by the Trustee, sufficient funds to commence or to continue such act, action or proceeding and an indemnity reasonably satisfactory to the Trustee to protect and to hold harmless the Trustee against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof. None of the provisions contained in this Indenture shall require the Trustee to expend or to risk its own funds or otherwise to incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless indemnified as aforesaid.
- (c) The Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding, require the Warrantholders, at whose instance it is acting, to deposit with the Trustee the Warrants held by them, for which Warrants the Trustee shall issue receipts.

**9.3 Evidence, Experts and Advisers**

- (a) In addition to the reports, certificates, opinions and other evidence required by this Indenture, the Corporation shall furnish to the Trustee such additional evidence of compliance with any provision hereof, and in such form, as may be prescribed by any legislation applicable to this Indenture or as the Trustee may reasonably require by written notice to the Corporation.
- (b) In the exercise of its rights and duties hereunder, the Trustee may, if it is acting in good faith, rely as to the truth of the statements and the accuracy of the opinions expressed in statutory declarations, opinions, reports, written requests, consents, or orders of the Corporation, certificates of the Corporation or other evidence furnished to the Trustee pursuant to a request of the Trustee, provided that such evidence complies with all legislation applicable to this Indenture and that the Trustee complies with such legislation and that the Trustee examines the same and determines that such evidence complies with the applicable requirements of this Indenture.
- (c) Whenever it is provided in this Indenture or under any legislation applicable to this Indenture that the Corporation shall deposit with the Trustee resolutions, certificates, reports, opinions, requests, orders or other documents, it is intended that the trust, accuracy and good faith on the effective date thereof and the facts

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and opinions stated in all such documents so deposited shall, in each and every such case, be conditions precedent to the right of the Corporation to have the Trustee take the action to be based thereon.

- (d) Proof of the execution of an instrument in writing, including a Warrantholders' Request, by any Warrantholder may be made by the certificate of a notary public or other officer with similar powers, that the person signing such instrument acknowledged to it the execution thereof, or by an affidavit of a witness to such execution or in any other manner which the Trustee may consider adequate.
- (e) The Trustee may employ or retain at the Corporation's expense such Counsel, accountants, appraisers or other experts or advisers as it may reasonably require for the purpose of determining and discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them, without taxation of costs of any Counsel, and shall not be responsible for any misconduct or negligence on the part of any such experts or advisers who have been appointed with due care by the Trustee.

#### **9.4 Documents, Monies, etc. Held by Trustee**

Unless herein otherwise expressly provided, any of the funds held by the Trustee may be deposited in a trust account in the name of the Trustee (which may be held with the Trustee or an affiliate or related party of the Trustee) which account shall be non-interest bearing. Upon the written order of the Corporation, the Trustee shall invest in its name such funds in Authorized Investments in accordance with such direction. Any direction by the Corporation to the Trustee as to the investment of the funds shall be in writing and shall be provided to the Trustee no later than 9:00 a.m. on the day on which the investment is to be made. Any such direction received by the Trustee after 9:00 a.m. or received on a non-Business Day, shall be deemed to have been given prior to 9:00 a.m. the next Business Day. Unless the Corporation shall be in default hereunder, all interest or other income received by the Trustee in respect of such deposits and investments shall belong to the Corporation.

#### **9.5 Actions by Trustee to Protect Interest**

The Trustee shall have power to institute and to maintain such actions and proceedings as it may consider necessary or expedient to preserve, protect or enforce its interests and the interests of the Warrantholders.

#### **9.6 Trustee Not Required to Give Security**

The Trustee shall not be required to give any bond or security in respect of the execution of the trusts and powers of this Indenture or otherwise in respect of the premises.

#### **9.7 Protection of Trustee**

By way of supplement to the provisions of any law for the time being relating to trustees it is expressly declared and agreed as follows:

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- (a) the Trustee shall not be liable for or by reason of any statements of fact or recitals in this Indenture or in the Warrant Certificates (except the representation contained in Section 9.9 or in the certificate of the Trustee on the Warrant Certificates) or be required to verify the same, but all such statements or recitals are and shall be deemed to be made by the Corporation;
  - (b) nothing herein contained shall impose any obligation on the Trustee to see to or to require evidence of the registration or filing (or renewal thereof) of this Indenture or any instrument ancillary or supplemental hereto;
  - (c) the Trustee shall not be bound to give notice to any person or persons of the execution hereof; and
  - (d) the Trustee shall not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach on the part of the Corporation to any of the covenants herein contained or of any acts of any directors, officers, employees, agents or servants of the Corporation.

#### **9.8 Replacement of Trustee; Successor by Merger**

- (a) The Trustee may resign its trust and be discharged from all further duties and liabilities hereunder, subject to this Section 9.8, by giving to the Corporation not less than 90 days' prior notice in writing or such shorter prior notice as the Corporation may accept as sufficient. The Warrantheolders by extraordinary resolution shall have power at any time to remove the existing Trustee and to appoint a new Trustee. In the event of the Trustee resigning or being removed as aforesaid or being dissolved, becoming bankrupt, going into liquidation otherwise becoming incapable of acting hereunder, the Corporation shall forthwith appoint a new trustee unless a new trustee has already been appointed by the Warrantheolders; failing such appointment by the Corporation, the retiring Trustee, at the Corporation's expense, or any Warrantheolder may apply to a justice of the Court of Queen's Bench of the Province of Alberta on such notice as such justice may direct, for the appointment of a new trustee; but any new trustee so appointed by the Corporation or by the Court shall be subject to removal as aforesaid by the Warrantheolders. Any new trustee appointed under any provision of this Section 9.8 shall be a corporation authorized to carry on the business of a trust company in the Province of Alberta and, if required by any legislation applicable to this Indenture for any other provinces, in such other provinces. On any such appointment the new trustee shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Trustee hereunder and there shall be immediately executed, at the expense of the Corporation, all such conveyances or other instruments as may, in the reasonable opinion of counsel, be necessary or advisable to vest the new trustee with such powers, rights, duties and responsibilities, provided that the predecessor Trustee shall have no obligation to execute any such conveyances or instruments until such time as it has received payment of all outstanding remuneration and expenses payable by the Corporation to such Trustee under this Indenture.

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- (b) Upon the appointment of a successor trustee, the Corporation shall promptly notify the Warrantholders thereof in the manner provided for in Section 10.2 hereof.
  - (c) Any corporation into or with which the Trustee may be merged or consolidated or amalgamated, or any corporation resulting therefrom to which the Trustee shall be a party, or any corporation succeeding to the trust business of the Trustee shall be the successor to the Trustee hereunder without any further act on its part or any of the parties hereto, provided that such corporation would be eligible for appointment as a successor trustee under subsection 9.8(a).
  - (d) Any Warrant Certificates certified but not delivered by a predecessor trustee may be certified by the successor trustee in the name of the predecessor or successor trustee.

#### **9.9 Conflict of Interest**

- (a) The Trustee represents to the Corporation that at the time of execution and delivery hereof no material conflict of interest exists between its role as a trustee hereunder and its role in any other capacity and agrees that in the event of a material conflict of interest arising hereafter it will, within 90 days after ascertaining that it has such material conflict of interest, either eliminate the same or assign its trust hereunder to a successor trustee approved by the Corporation and meeting the requirements set forth in subsection 9.8(a). Notwithstanding the foregoing provisions of this subsection 9.9(a), if any such material conflict of interest exists or hereafter shall exist, the validity and enforceability of this Indenture and the Warrant Certificates shall not be affected in any manner whatsoever by reason thereof.
- (b) Subject to subsection 9.9(a), the Trustee, in its personal or any other capacity, may buy, lend upon and deal in securities of the Corporation and generally may contract and enter into financial transactions with the Corporation or any Subsidiary of the Corporation without being liable to account for any profit made thereby.

#### **9.10 Acceptance of Trust**

The Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform the same upon the terms and conditions herein set forth.

#### **9.11 Trustee Not to be Appointed Receiver**

The Trustee and any person related to the Trustee shall not be appointed a receiver, a receiver and manager or liquidator of all or any part of the assets or undertaking of the Corporation.

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### **9.12 Knowledge of Trustee**

The Trustee shall not be required to take notice or be deemed to have notice, whether constructive or actual, of any matter hereunder, unless the Trustee shall have received from the Corporation or a Warrantholder a notice stating the matter in respect of which the Trustee should have notice.

### **9.13 Indemnification of Trustee**

In addition to and without limiting any other protection of the Trustee hereunder or otherwise by law, the Corporation shall be liable for and indemnify and save harmless the Trustee and its officers, directors, agents, employees and shareholders from and against any and all losses, costs, charges, expenses, damages and liabilities whatsoever arising in connection with this Indenture, including, without limitation, those arising out of or related to actions taken or omitted to be taken by the Trustee contemplated hereby, legal fees and disbursements on a solicitor and client basis, and costs and expenses incurred in connection with the enforcement of this indemnity, which the Trustee may suffer or incur, whether at law or in equity, in any way caused by or arising, directly or indirectly, in respect of any act, deed, matter or thing whatsoever made, done, acquiesced in or omitted in or about or in relation to the execution of its duties as Trustee and including and deed, matter or thing in relation to the execution of its duties as Trustee and including any deed, matter or thing in relation to the registration, perfection, release or discharge of security. The foregoing provisions of this section do not apply to the extent that in any circumstances there has been a failure by the Trustee or its employees or agents to act honestly and in good faith or where the Trustee or its employees or agents have acted with negligence, gross negligence or in willful disregard to the Trustee's obligations hereunder or breached the standard of care set out in Section 9.2(a). It is understood and agreed that this indemnification shall survive the termination of this Indenture or the resignation of the Trustee.

### **9.14 Trustee Not Required to Give Notice of Default**

The Trustee shall not be bound to give any notice or do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof; nor shall the Trustee be required to take notice of any default hereunder, unless and until notified in writing of such default, which notice shall distinctly specify the default desired to be brought to the attention of the Trustee and in the absence of any such notice the Trustee may for all purposes of this Indenture conclusively assume that no default has been made in the observance or performance of any of the representations, warranties, covenants, agreements or conditions contained herein. Any such notice shall in no way limit any discretion herein given to the Trustee to determine whether or not the Trustee shall take action with respect to any default.

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**ARTICLE 10**  
**General**

**10.1 Notice to the Corporation and the Trustee**

- (a) Unless herein otherwise expressly provided, any notice to be given hereunder to the Corporation or the Trustee shall be deemed to be validly given if delivered or if sent by registered letter, postage prepaid or by facsimile:

If to the Corporation:

TransAtlantic Petroleum Corp.  
Suite 1840, 444 - 5<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 2T8  
Attention: Secretary  
Fax: (403) 262-1349

If to the Trustee:

Computershare Trust Company of Canada  
Suite 600, 530 - 8<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 3S8  
Fax: (403) 267-6879

and any such notice delivered in accordance with the foregoing shall be deemed to have been received on the date of delivery or facsimile if delivered or faxed (with receipt confirmed) by 4:30 p.m. (local time) on a Business Day, or otherwise on the next Business Day or, if mailed, on the 5th Business Day following the date of the postmark on such notice.

- (b) The Corporation or the Trustee, as the case may be, may from time to time notify the other in the manner provided in subsection 10.1(a) of a change of address which, from the effective date of such notice and until changed by like notice, shall be the address of the Corporation or the Trustee, as the case may be, for all purposes of this Indenture.
- (c) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, any notice to be given to the Trustee or to the Corporation hereunder could reasonably be considered unlikely to reach its destination, such notice shall be valid and effective only if it is delivered to the named officer of the party to which it is addressed or, if it is delivered to such party at the appropriate address provided in subsection 10.1(a), by facsimile or other means of prepaid, transmitted and recorded communication.

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## **10.2 Notice to Warrantholders**

- (a) Any notice to the Warrantholders under the provisions of this Indenture shall be valid and effective if delivered or if sent by ordinary post addressed to such holders at their post office addresses appearing on the register of Warrantholders maintained under this Indenture. Any such notice delivered in accordance with the foregoing is deemed to have been effectively given (and received by the Warrantholders) on the date of delivery (with receipt confirmed) if such date is a Business Day or, if mailed, five Business Days following actual posting of the notice.
- (b) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, any notice to be given to the Warrantholders hereunder could reasonably be considered unlikely to reach its destination, such notice shall be valid and effective only if it is delivered personally to such Warrantholders or if delivered to the address for such Warrantholders contained in the register of Warrants maintained by the Trustee, by other means of prepaid transmitted and recorded communication. Accidental error or omission in giving notice or accidental failure to mail notice to any holder will not invalidate any action or proceeding founded thereon.
- (c) In addition to the other requirements for notice under this Section, where a Warrantholder meeting is being convened, the Trustee or Corporation may require publication of such notice in such municipalities and filing with securities regulatory authorities, as necessary to comply with applicable legal, regulatory or stock exchange requirements.

## **10.3 Evidence of Ownership**

- (a) Upon receipt of a certificate of any bank, trust company or other depositary satisfactory to the Trustee stating that the Warrants specified therein have been deposited by a named person with such bank, trust company or other depositary and will remain so deposited until the expiry of the period specified therein and the acknowledgement by the named person of such certificate, the Corporation and the Trustee may treat the person so named as the owner, and such certificate as sufficient evidence of the ownership by such person of such Warrant during such period, for the purpose of any requisition, direction, consent, instrument or other document to be made, signed or given by the holder of the Warrant so deposited.
- (b) The Corporation and the Trustee may accept as sufficient evidence of the fact and date of the signing of any requisition, direction, consent, instrument or other document by any person (i) the signature of any officer of any bank, trust company, or other depositary satisfactory to the Trustee as witness of such execution, (ii) the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded at the place where such certificate is made that the person signing acknowledged to him the execution thereof, or (iii) a satisfactory declaration of a witness of such execution.

---

#### **10.4 Counterparts**

This Indenture may be executed in several counterparts, each of which when so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument and notwithstanding their date of execution they shall be deemed to be dated as of the date hereof.

#### **10.5 Satisfaction and Discharge of Indenture**

Upon the earlier of:

- (a) the date by which there shall have been delivered to the Trustee for exercise or destruction all Warrant Certificates theretofore certified hereunder; or
- (b) 30 days after the Time of Expiry;

this Indenture shall cease to be of further effect and the Trustee, on demand of and at the cost and expense of the Corporation and upon delivery to the Trustee of a certificate of the Corporation stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture. Notwithstanding the foregoing, the indemnities provided to the Trustee by the Corporation hereunder shall remain in full force and effect and survive the termination of this Indenture.

#### **10.6 Provisions of Indenture and Warrants for the Sole Benefit of Parties and Warrantholders**

Nothing in this Indenture or in the Warrant Certificates, expressed or implied, shall give or be construed to give to any person other than the parties hereto and the Warrantholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture, or under any covenant or provision herein or therein contained, all such covenants and provisions being for the sole benefit of the parties hereto and the Warrantholders.

#### **10.7 Warrants Owned by the Corporation or its Subsidiaries - Certificate to be Provided**

For the purpose of disregarding any Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation in Section 7.16, the Corporation shall provide to the Trustee from time to time and immediately upon request, a certificate of the Corporation setting forth as at the date of such certificate:

- (a) the names (other than the name of the Corporation) of the registered holders of Warrants which, to the knowledge of the Corporation, are owned by or held for the account of the Corporation or any Subsidiary of the Corporation; and
- (b) the number of Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation,

and the Trustee, in making the computations in Section 7.16, shall be entitled to rely on such certificate without any additional evidence.

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**10.8 Successors**

All provisions of this Indenture for the benefit of the Corporation and the Trustee bind and enure to the benefit of their respective successors and assigns.

**Executed and delivered as of the 17th day of November, 2005.**

**TRANSATLANTIC PETROLEUM CORP.**

Per: \_\_\_\_\_

Per: \_\_\_\_\_

**COMPUTERSHARE TRUST COMPANY OF CANADA**

Per: \_\_\_\_\_

Per: \_\_\_\_\_

---

SCHEDULE A to the Warrant Indenture made as of November 17,  
2005 between TRANSATLANTIC PETROLEUM CORP. and  
COMPUTERSHARE TRUST COMPANY OF CANADA as Trustee

[see attached]

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SCHEDULE B to the Warrant Indenture made as of November 17,  
2005 between TRANSATLANTIC PETROLEUM CORP. and  
COMPUTERSHARE TRUST COMPANY OF CANADA as Trustee

**FORM OF DECLARATION FOR REMOVAL OF LEGEND**

TO: Computershare Trust Company of Canada  
as registrar and transfer agent for the common shares of  
TransAtlantic Petroleum Corp. (the "**Corporation**") and warrant trustee for the warrants of the Corporation

The undersigned (A) acknowledges that the sale of the common shares/warrants (circle one) represented by certificate number \_\_\_\_\_ of TransAtlantic Petroleum Corp. to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**1933 Act**") and (B) certifies that (1) the undersigned is not an affiliate (as defined in Rule 405 under the 1933 Act), (2) the offer of such securities was not made to a person in the United States and either (a) at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believed that the buyer was outside the United States, or (b) the transaction was executed on or through the facilities of the Toronto Stock Exchange and neither the seller nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States, (3) neither the seller nor any person acting on its behalf engaged in any directed selling efforts in connection with the offer and sale of such securities, (4) the sale is bona fide and not for the purpose of "**washing off**" the resale restrictions imposed because the securities are "**restricted securities**" (as such term is defined in Rule 144(a)(3) under the 1933 Act), (5) the seller does not intend to replace such securities with fungible unrestricted securities; (6) the contemplated sale is not a transaction, or part of a series of transactions which, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration provisions of the 1933 Act. Terms used herein have the meanings given to them by Regulation S under the 1933 Act; and (7) in the case of an affiliate of the Corporation, no selling concession, fee or other remuneration is paid in connection with such offer or sale other than the usual and customary broker's commission that would be received by a person executing such transaction as agent.

By \_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_  
\_\_\_\_\_

Name: \_\_\_\_\_  
\_\_\_\_\_  
(please print)

---

**Affirmation by Seller's Broker-Dealer**

We have read the foregoing representations of our customer, \_\_\_\_\_ (the "**Seller**") dated \_\_\_\_\_, with regard to the sale, for such Seller's account, of the common shares/warrants (circle one) represented by certificate number \_\_\_\_\_ of the Corporation described therein, and we hereby affirm that, to the best of our knowledge and belief, the facts set forth therein are full, true and correct.

\_\_\_\_\_  
Name of Firm

By: \_\_\_\_\_  
Authorized Officer

Date: \_\_\_\_\_

TRANSATLANTIC PETROLEUM CORP.

and

COMPUTERSHARE TRUST COMPANY OF CANADA

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WARRANT INDENTURE

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December 1, 2006

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**This Warrant Indenture**

is made as of December 1, 2006

**Between**

**TRANSATLANTIC PETROLEUM CORP.**, a corporation incorporated under the laws of the Province of Alberta, having an office in Calgary, Alberta (the “**Corporation**”)

**and**

**COMPUTERSHARE TRUST COMPANY OF CANADA**, a trust company existing under the laws of Canada and authorized to carry on business in Alberta (the “**Trustee**”)

**Recitals**

- A.** The Corporation is proposing to issue up to 4,719,375 Warrants in the manner herein set forth;
- B.** Each Warrant shall, subject to adjustment, entitle the holder thereof to acquire one Common Share at the price and upon the terms and conditions herein set forth; and
- C.** All acts and deeds necessary have been done and performed to create the Warrants, when issued as provided in this Indenture, as legal, valid and binding upon the Corporation with the benefits and subject to the terms of this Indenture;

The foregoing statements of fact and recitals are made by the Corporation and not the Trustee.

**The parties agree as follows.**

**ARTICLE 1**  
**Interpretation**

**1.1 Definitions**

In this Indenture, including the recitals and schedules hereto and in all indentures supplemental hereto:

- “**1933 Act**” means the United States Securities Act of 1933, as amended;
- “**Accredited Investor**” means an accredited investor as defined in Rule 501(a) of Regulation D;
- “**Accelerated Expiry Date**” has the meaning set forth in Section 2.2;

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“**Acceleration Notice**” has the meaning set forth in Section 2.2;

“**Adjustment Period**” means the period from and including the Effective Date up to and including the Time of Expiry or the Accelerated Time of Expiry, as applicable;

“**Accelerated Time of Expiry**” means 4:30 p.m., Calgary time, on the Accelerated Expiry Date;

“**affiliates**” has the meaning given thereto in the *Securities Act* (Alberta);

“**Authorized Investments**” means short term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or a province of Canada or a Canadian chartered bank (which may include an affiliate or related party of the Trustee) provided that each such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating by Canadian Bond Rating Service;

“**Business Day**” means a day which is not Saturday or Sunday or a legal holiday in the City of Calgary or a day on which the Trustee is closed for business;

“**Change of Control**” means, with respect to the Corporation, the occurrence of any of the following events: (i) a tender offer shall be made and consummated for the ownership of 20% or more of the outstanding voting securities of the Corporation; (ii) the Corporation shall be merged or consolidated with another corporation (or other person) and as a result of such merger or consolidation less than 50% of the outstanding voting securities of the surviving or resulting corporation shall be owned in the aggregate by the former shareholders of the Corporation, other than affiliates of any party to such merger or consolidation as the same shall have existing immediately prior to such merger or consolidation; or (iii) the Corporation shall sell substantially all of its assets to another corporation (or other person) which is not a wholly owned Subsidiary;

“**Common Shares**” means fully paid and non-assessable Common Shares of the Corporation as presently constituted;

“**Corporate Transaction**” means a transaction resulting in a Change of Control;

“**Corporation**” means TransAtlantic Petroleum Corp.;

“**Corporation’s Auditors**” means the firm of chartered accountants that is duly appointed as auditors of the Corporation;

“**Counsel**” means a barrister or solicitor or a firm of barristers and solicitors retained by the Trustee or retained by the Corporation and acceptable to the Trustee;

“**Current Market Price**” of the Common Shares at any date means the weighted average of the trading prices per share for such shares for any 10 consecutive Trading Days (as selected by the directors of the Corporation) during the period commencing not more than 30 Trading Days before such date on the Toronto Stock Exchange or, if on such date the Common Shares are not listed on the Toronto Stock Exchange, on such stock exchange upon which such shares are listed and as selected by the directors, or, if such

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shares are not listed on any stock exchange then on such over-the-counter market as may be selected for such purpose by the directors, or, if the Common Shares are not listed on any stock exchange or traded through an over-the-counter market, the Current Market Price is to be determined in good faith by the directors of the Corporation;

“**director**” means a director of the Corporation for the time being and, unless otherwise specified herein, reference to action “**by the directors**” means action by the directors of the Corporation as a board or, whenever duly empowered, action by any committee of such board;

“**Dividends Paid in the Ordinary Course**” means cash dividends or distributions declared payable on the Common Shares in any fiscal year of the Corporation to the extent that such cash dividends or distributions do not exceed, in the aggregate, 50% of the consolidated net income of the Corporation before extraordinary items for the period of 12 consecutive months ended immediately prior to the first day of such fiscal year (such consolidated net income and extraordinary items to be shown in the audited consolidated financial statements of the Corporation for such period of 12 consecutive months or if there are no audited consolidated financial statements for such period, computed in accordance with generally accepted accounting principles, consistent with those applied in the preparation of the most recent audited consolidated financial statements of the Corporation);

“**Effective Date**” means the date of this Indenture;

“**Exercise Date**” means, with respect to any Warrant, the date on which the Warrant Certificate representing such Warrant is surrendered for exercise in accordance with the provisions of Article 3;

“**Exercise Price**” with respect to the exercise of any Warrant means \$1.05 in lawful money of the United States per Common Share, unless such price shall have been adjusted in accordance with the provisions of Article 4, in which case it shall mean the adjusted price in effect at such time;

“**Expiry Date**” means December 4, 2008, subject to adjustment in accordance with Section 2.2 and Section 4.1(e);

“**Issue Date**” means, in respect of each Warrant, the date upon which the Warrant is issued by the Corporation so that it is considered outstanding for the purposes of this Indenture;

“**person**” means an individual, body corporate, partnership, trust, trustee, executor, administrator, legal representative or any unincorporated organization;

“**Regulation D**” means Regulation D under the 1933 Act;

“**Regulation S**” means Regulation S under the 1933 Act;

“**Shareholder**” means a holder of record of one or more Common Shares;

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“**Subsidiary of the Corporation**” or “**Subsidiary**” means any corporation or other person (other than an individual) of which more than 50% of the outstanding voting securities are owned, directly or indirectly, by or for the Corporation, provided that the ownership of such securities confers the right to elect at least a majority of the board of directors (or persons in a similar position of fiduciary responsibility) of such corporation or other person (other than an individual) and includes any entity in like relation to a Subsidiary;

“**successor entity**” has the meaning set forth in Section 8.2;

“**this Warrant Indenture**”, “**this Indenture**”, “**herein**”, “**hereby**” and similar expressions mean and refer to this Indenture and any indenture, deed or instrument supplemental hereto; and the expressions “**Article**”, “**Section**” “**subsection**” and “**paragraph**” followed by a number mean and refer to the specified article, section, subsection or paragraph of this Indenture;

“**Time of Expiry**” means 4:30 p.m., Calgary time, on the Expiry Date;

“**Trading Day**” means, with respect to a stock exchange, a day on which such exchange is open for the transaction of business and with respect to the over-the-counter market means a day on which the Toronto Stock Exchange is open for the transaction of business;

“**Trustee**” or “**Warrant Trustee**” means Computershare Trust Company of Canada or its successors from time to time in the trust hereby created;

“**United States**” means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia;

“**Units**” means the 4,500,000 units of the Corporation, each consisting of one Common Share and one Warrant, being offered by the Corporation;

“**U.S. Person**” has the meaning set forth in Regulation S and includes, with certain exceptions, (i) any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. Person; (iv) any trust of which any trustee is a U.S. Person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) any partnership or corporation if (A) organized or incorporated under the laws of any jurisdiction other than the United States and (B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the 1933 Act, unless it is organized or incorporated, and owned, by Accredited Investors who are not natural persons, estates or trusts;

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“**Warrant Agency**” means either of the principal office of the Trustee in the City of Calgary and the principal office of the Trustee in the City of Toronto or such other place as may be designated in accordance with subsection 3.1(c);

“**Warrant Certificate**” means a certificate, in substantially the form attached hereto as Schedule A, issued on or after the Effective Date to evidence Warrants;

“**Warrantholder**”, or “**holder**” without reference to Common Shares, means the person who is the registered owner of Warrants as shown on the register maintained at the Warrant Agency by the Trustee in accordance with this Indenture;

“**Warrantholders’ Request**” means an instrument signed in one or more counterparts by Warrantholders entitled to acquire in the aggregate not less than 10% of the aggregate number of Common Shares which could be acquired pursuant to all Warrants then unexercised and outstanding, requesting the Trustee to take some action or proceeding specified therein;

“**Warrants**” means the Warrants issued and certified hereunder and for the time being outstanding entitling the holder to acquire Common Shares in accordance with this Indenture; and

“**written order of the Corporation, written request of the Corporation, written consent of the Corporation, written notice of the Corporation**” and “**certificate of the Corporation**” mean, respectively, a written order, request, consent, notice and certificate signed in the name of the Corporation by any director or officer of the Corporation, and may consist of one or more instruments so executed.

### **1.2 Gender and Number**

Unless herein otherwise expressly provided or unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

### **1.3 Interpretation not Affected by Headings, etc.**

The division of this Indenture into Articles and Sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Indenture.

### **1.4 Day not a Business Day**

In the event that any day on or before which action is required to be taken hereunder is not a Business Day, then such action shall be required to be taken at or before the requisite time on the next succeeding day that is a Business Day.

### **1.5 Time of the Essence**

Time shall be of the essence of this Indenture.

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**1.6 Applicable Law**

This Indenture and the Warrant Certificates shall be construed in accordance with the laws of the Province of Alberta and shall be treated in all respects as Alberta contracts.

**1.7 Language**

The parties hereto confirm their express wish that this Indenture and all documents and agreements directly or indirectly relating thereto be drawn up in the English language. Notwithstanding such express wish, the parties agree that any such document or agreement, or any part thereof or of this Indenture, may be drawn up in the French language.

Les parties reconnaissent leur volonté expresse que le présent acte de fiducie ainsi que tous les documents et contrats s'y rattachant directement ou directement soient rédigés en anglais. Nonobstant cette volonté expresse, les parties conviennent que tout document ou contrat, ou toute partie de ces derniers ou du présent acte de fiducie, puissent être rédigés en français.

**1.8 Severability**

In the event that any provision under this Indenture is determined to be invalid or unenforceable in any respect, such determination will not affect the provision in any other respect or any other provision under this Indenture, all of which will remain in full force and effect.

**1.9 Conflicts**

In the event there is any conflict between this Indenture and any Warrant Certificate, the provisions under this Indenture will govern and prevail.

**ARTICLE 2**  
**Issue of Warrants**

**2.1 Issue of Warrants**

Up to 4,719,375 Warrants are hereby created and authorized to be issued in accordance with the terms hereof. Each Warrant entitles the holder thereof, upon exercise, together with the payment of the Exercise Price, to acquire one Common Share, subject to adjustment in accordance with Article 4, at any time after the Issue Date and ending at the Time of Expiry, subject to adjustment in accordance with Section 2.2 or 4.1(e).

**2.2 Acceleration of Expiry Date**

- (a) Subject to adjustment in accordance with Article 4, if at any time after the four month anniversary of the Issue Date, the weighted average trading price of the Corporation's Common Shares on the Toronto Stock Exchange is US\$1.55 per share or more for a period of 20 consecutive Trading Days, the board of directors of the Corporation may, at any time thereafter, elect, by providing a written notice of the Corporation to the Warranholders (the "Acceleration Notice") at their last known addresses on the records of the Corporation, to accelerate the expiry date for the exercise of all unexercised Warrants.

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- (b) The Warrants will expire and cease to be exercisable at the Accelerated Time of Expiry on the date specified in such Acceleration Notice (the “Accelerated Expiry Date”), which date will not be less than 30 calendar days after the date of mailing or other transmission of such notice by the Corporation to the Warrantholders in accordance with Section 10.2.
- (c) For certainty, Warrantholders exercising unexercised Warrants pursuant to this Section 2.2 must do so in compliance with Section 3.1 and the provisions of Article 3 apply *mutatis mutandis*.

**2.3 Form and Terms of Warrants**

- (a) The Warrant Certificates (including all replacements issued in accordance with this Indenture) shall be substantially in the form set out in Schedule A hereto, shall be dated as of the date of this Indenture (regardless of the Issue Date), shall bear such legends and distinguishing letters and numbers as the Corporation may, with the approval of the Trustee, prescribe, and shall be issuable in any denomination excluding fractions.
- (b) The Warrant Certificates may be engraved, printed, lithographed or partly in one form and partly in another as the Corporation with the approval of the Trustee may determine. No change in the Warrant Certificate shall be required by reason of any adjustment made pursuant to Article 4 in the number or class of Common Shares or other securities to which a holder is entitled pursuant to the exercise of the Warrants.
- (c) No fractional Warrants shall be issued or otherwise provided for hereunder.
- (d) The number of Common Shares which may be purchased pursuant to the exercise of Warrants and the Exercise Price payable therefor shall be adjusted in the events and in the manner specified in Article 4.
- (e) Each Warrant shall entitle the holder thereof to such other rights and privileges as are set forth in this Indenture.

**2.4 Warrantholder not a Shareholder**

Nothing in this Indenture or in the holding of a Warrant or Warrant Certificate or otherwise, shall, in itself, confer or be construed as conferring upon a Warrantholder as such any right or interest whatsoever as a Shareholder or as any other shareholder of the Corporation, including, but not limited to, the right to vote at, to receive notice of, or to attend, meetings of Shareholders or any other proceedings of the Corporation, or the right to receive dividends and other distributions except as may be provided in this Indenture or the Warrant Certificates.

**2.5 Warrants to Rank *pari passu***

All Warrants shall rank *pari passu*, whatever may be the actual Issue Date thereof.

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**2.6 Signing of Warrant Certificates**

The Warrant Certificates shall be signed by any one director or officer of the Corporation. The signature of any such director or officer may be mechanically reproduced in facsimile and Warrant Certificates bearing such facsimile signature shall be binding upon the Corporation as if it had been manually signed by such director or officer. Notwithstanding that any of the persons whose manual or facsimile signature appears on any Warrant Certificate as a director or officer may no longer be appointed or hold office at the date of such Warrant Certificate or at the date of certification or delivery thereof, any Warrant Certificate signed as aforesaid shall, subject to Section 2.7, be valid and binding upon the Corporation and the holder thereof shall be entitled to the benefits of this Indenture.

**2.7 Certification by the Trustee**

- (a) No Warrant Certificate shall be issued or, if issued, shall be valid for any purpose or entitle the holder to the benefit hereof until it has been certified by manual signature by or on behalf of the Trustee and such certification by the Trustee upon any Warrant Certificate shall be conclusive evidence as against the Corporation that the Warrant Certificate so certified has been duly issued hereunder and that the holder is entitled to the benefits hereof.
- (b) Warrant Certificates shall be certified by, or on behalf of, the Trustee upon the written order of the Corporation and delivered by the Trustee to the Corporation in accordance with the written direction of the Corporation. The certification of the Trustee on Warrant Certificates issued hereunder shall not be construed as a representation or warranty by the Trustee as to the validity of this Indenture or the Warrant Certificates (except the due certification thereof) and the Trustee shall in no respect be liable or answerable for the use made of the Warrant Certificate or any of them or of the consideration therefor except as otherwise specified herein. The countersignature of the Trustee will, however, be a representation and warranty of the Trustee that the Warrant Certificate has been duly countersigned by or on behalf of the Trustee pursuant to the provisions of this Indenture.

**2.8 Issue in Substitution for Warrant Certificates Lost, etc.**

- (a) In the event that any Warrant Certificate shall become mutilated or be lost, destroyed or stolen, the Corporation, subject to applicable law, shall issue and thereupon the Trustee shall certify and deliver, a new Warrant Certificate of like tenor as the one mutilated, lost, destroyed or stolen in exchange for and in place of and upon cancellation of such mutilated Warrant Certificate, or in lieu of and in substitution for such lost, destroyed or stolen Warrant Certificate, and the substituted Warrant Certificate shall be in a form approved by the Trustee and the Warrants evidenced thereby shall be entitled to the benefits hereof and shall rank equally in accordance with its terms with all other Warrants issued or to be issued hereunder.
- (b) The applicant for the issue of a new Warrant Certificate pursuant to this Section 2.8 shall bear the cost of the issue thereof and in case of loss, destruction

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or theft shall, as a condition precedent to the issue thereof, furnish to the Corporation and to the Trustee such evidence of ownership and of the loss, destruction or theft of the Warrant Certificate so lost destroyed or stolen as shall be satisfactory to the Corporation and to the Trustee each in their sole discretion, and such applicant shall also be required to furnish an indemnity or security in amount and form satisfactory to the Corporation and the Trustee each in their discretion and shall pay the reasonable charges of the Corporation and the Trustee in connection therewith.

**2.9 Exchange of Warrant Certificates**

- (a) Warrant Certificates representing Warrants to acquire any specified number of Common Shares may, upon compliance with the reasonable requirements of the Trustee, be exchanged for another Warrant Certificate or Warrant Certificates entitling the holder thereto to acquire in the aggregate the same number of Common Shares as may be acquired under the Warrant Certificate or Warrant Certificates so exchanged. Upon compliance with the reasonable requirements of the Trustee and the terms and conditions hereof, the Corporation will sign, and the Trustee will countersign, all Warrant Certificates necessary to carry out these exchanges.
- (b) Warrant Certificates may be exchanged only at a Warrant Agency or at any other place that is designated by the Corporation with the approval of the Trustee. Any Warrant Certificate tendered for exchange shall be cancelled by the Trustee.

**2.10 Transfer of Warrants**

- (a) Subject to subsection 2.10(b) below and such reasonable requirements as the Trustee may prescribe and all applicable securities legislation and requirements of regulatory authorities, the Warrants may be transferred on the register kept at the Warrant Agency by the Warrantholder (or its legal representatives or its attorney duly appointed by an instrument in writing in form and manner of execution satisfactory to the Trustee) only upon the surrender of the relevant Warrant Certificate with the transfer form forming part thereof duly completed and signed. After receiving the surrendered Warrant Certificate(s) and upon the person surrendering the same meeting the requirements set forth above, the Trustee shall issue to the transferee a Warrant Certificate representing the Warrants transferred.
- (b) No transfer of a Warrant shall be valid (i) unless made in accordance with the provisions hereof, (ii) until, upon compliance with such reasonable requirements as the Trustee may prescribe, such transfer is recorded on the register maintained by the Trustee pursuant to subsection (a) of this Section 2.10, (iii) unless such registration shall be noted on the Warrant Certificate by the Trustee, and (iv) until all governmental or other charges arising by reason of such transfer have been paid.
- (c) The Warrants may not be offered, sold or transferred in the United States or to or for the account or benefit of a U.S. Person unless an exemption from registration

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under the 1933 Act and applicable state securities laws is available and the Warrantholder has presented to the Corporation evidence of the availability of the exemption satisfactory to the Corporation.

- (d) Warrants bearing the legend set forth in Section 2.12 may not be transferred except pursuant to registration or compliance with exemptions therefrom under the 1933 Act and all applicable state securities laws, and the Trustee agrees not to register any transfer of the Warrants so legended unless, in addition to the other requirements set forth herein:
- (i) the Warrantholder has executed and delivered to the Trustee a declaration in the form attached as Schedule B hereto (or as the Corporation may otherwise prescribe) to the effect that the transfer is being made pursuant to Rule 904 of Regulation S under the 1933 Act, and in such case the Warrant Certificate issued to the transferee shall not include the legend set forth in Section 2.12 unless the Corporation has, prior to the issuance thereof, informed the Trustee that it has ceased to be a “**foreign issuer**” as defined in Rule 902 under the 1933 Act; or
  - (ii) the Warrantholder has delivered to the Trustee and the Corporation an opinion of counsel to the effect that the transfer is in compliance with the requirements of the 1933 Act and all applicable state securities laws, and the Corporation has confirmed in writing to the Trustee that such opinion is satisfactory to the Corporation, and in such case the Warrant Certificate issued to the transferee shall include the legend set forth in Section 2.12 unless such opinion states that the legend is no longer required; or
  - (iii) the Corporation has confirmed in writing to the Trustee that it has received other evidence satisfactory to it that the transfer is in compliance with the requirements of the 1933 Act and all applicable state securities laws, and has instructed the Trustee regarding the inclusion or omission of the legend set forth in Section 2.12 on the Warrant Certificate issued to the transferee.

## **2.11 Canadian Legends**

Each Warrant Certificate and all certificates representing Common Shares issued upon the exercise of such Warrants in accordance with Article 3 hereof prior to the day which is four months and one day from the Issue Date (and each Warrant Certificate or Common Share certificate issued in exchange therefor or in substitution on transfer thereof), shall be overprinted with the following legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER  
OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE APRIL 5,  
2007.

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In addition, each certificate representing Common Shares to be overprinted with the foregoing legend must also be overprinted with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TORONTO STOCK EXCHANGE (“**TSX**”); HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF TSX SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT “**GOOD DELIVERY**” IN SETTLEMENT OF TRANSACTIONS ON TSX.

## 2.12 U.S. Legends

The Trustee acknowledges that the Warrants and the Common Shares issuable upon the exercise of such Warrants have not been and will not be registered under the 1933 Act or applicable state securities laws. Each Warrant Certificate originally issued to a U.S. Person or a person in the United States or transferred to a U.S. Person or a person in the United States and all certificates representing Common Shares issued upon the exercise of any Warrants pursuant to box B or box C of the exercise form attached to the Warrant Certificate (and each Warrant Certificate or Common Share certificate issued in exchange therefor or in substitution on transfer thereof) shall be overprinted with the following legend:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**U.S. SECURITIES ACT**”). THE HOLDER HEREOF, BY PURCHASING SUCH SECURITIES, AGREES FOR THE BENEFIT OF THE CORPORATION THAT SUCH SECURITIES MAY BE OFFERED, SOLD OR OTHERWISE TRANSFERRED ONLY (A) TO THE CORPORATION, (B) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (C) IN ACCORDANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, AND, IN THE CASE OF PARAGRAPH (C) OR (D), THE SELLER FURNISHES TO THE CORPORATION AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION TO SUCH EFFECT. PROVIDED THAT THE CORPORATION IS A “FOREIGN ISSUER” WITHIN THE MEANING OF

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REGULATION S AT THE TIME OF SALE AND THESE SECURITIES ARE BEING SOLD IN COMPLIANCE WITH RULE 904 OF REGULATION S, A NEW CERTIFICATE BEARING NO LEGEND MAY BE OBTAINED FROM COMPUTERSHARE TRUST COMPANY OF CANADA, AS REGISTRAR AND TRANSFER AGENT, UPON DELIVERY OF THIS CERTIFICATE AND A DULY EXECUTED DECLARATION, IN A FORM SATISFACTORY TO COMPUTERSHARE TRUST COMPANY OF CANADA AND THE CORPORATION, TO THE EFFECT THAT SUCH SALE IS BEING MADE IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT;

In addition, each certificate representing Common Shares to be overprinted with the foregoing legend must also be overprinted with the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE LISTED ON THE TORONTO STOCK EXCHANGE (“TSX”); HOWEVER, THE SAID SECURITIES CANNOT BE TRADED THROUGH THE FACILITIES OF TSX SINCE THEY ARE NOT FREELY TRANSFERABLE, AND CONSEQUENTLY ANY CERTIFICATE REPRESENTING SUCH SECURITIES IS NOT “**GOOD DELIVERY**” IN SETTLEMENT OF TRANSACTIONS ON TSX.

provided, that the legend may be removed from the Warrants in the circumstances described in subsection 2.10(d); and

provided, that if, at any time the Corporation is a foreign issuer as defined in Regulation S, the underlying Common Shares are being sold in compliance with the requirements of Rule 904 of Regulation S and in compliance with local laws and regulations, the legend may be removed by providing a declaration to the registrar and transfer agent for the underlying Common Shares in the form attached as Schedule B hereto (or as the Corporation may prescribe from time to time); and

provided, further, that if any of the underlying Common Shares are being sold pursuant to Rule 144 of the 1933 Act, the legend may be removed by delivery to the registrar and transfer agent for the underlying Common Shares of an opinion of counsel, of recognized standing in form and substance satisfactory to the Corporation, to the effect that such legend is no longer required under applicable requirements of the 1933 Act or state securities laws.

### **2.13 Charges for Exchange and Transfer**

Except as otherwise herein provided, the Trustee may charge to the holder requesting an exchange or transfer a reasonable sum for each new Warrant Certificate issued in exchange for Warrant Certificate(s), and payment of such charges and reimbursement of the Trustee or the Corporation for any and all stamp taxes or governmental or other charges required to be paid shall be made by such holder as a condition precedent to such exchange or transfer.

#### **2.14 Registration of Warrants**

The Trustee shall keep at the Warrant Agency: (i) a register of Warrantholders in which shall be entered in alphabetical order the names and addresses of the holders of Warrants and particulars of the Warrants held by them; and (ii) a register of transfers in which all transfers of Warrants and the date and other particulars of each transfer shall be entered. Branch registers shall also be kept at such other place or places, if any, as the Corporation, with the approval of the Trustee, may designate. Such registers will at all reasonable times be open for inspection by the Corporation and/or any Warrantholder.

#### **2.15 Transferee Entitled to Registration**

The transferee of a Warrant shall, after the transfer form attached to the Warrant Certificate is duly completed and the Warrant Certificate and form of transfer are lodged with the Trustee, and upon compliance with all other conditions in that regard required by this Indenture and by all applicable securities legislation and requirements of regulatory authorities, be entitled to have his name entered on the register as the owner of such Warrant free from all equities or rights of set-off or counterclaim between the Corporation and his transferor or any previous Warrantholder of such Warrant, save in respect of equities of which the Corporation or the transferee is required to take notice by statute or by order of a court of competent jurisdiction.

#### **2.16 Registers Open for Inspection**

The registers hereinbefore referred to shall be open at the office of the Trustee during normal business hours on each Business Day and upon reasonable written notice for inspection by the Corporation, the Trustee or any Warrantholder. The Trustee shall, from time to time when requested to do so by the Corporation, furnish the Corporation with a list of the names and addresses of Warrantholders entered in the register kept by the Trustee showing the number of Warrants and the number of Common Shares which may then be acquired upon the exercise of the Warrants held by each such Warrantholder.

#### **2.17 Ownership of Warrants**

- (a) The Corporation and the Trustee may deem and treat the registered Warrantholder of any Warrant Certificate as the absolute owner of the Warrant represented thereby for all purposes, and the Corporation and the Trustee shall not be affected by any notice or knowledge to the contrary, except where the Corporation or the Trustee is required to take notice by statute or by order of a court of competent jurisdiction. For greater certainty, subject to applicable law, neither the Corporation nor the Trustee will be bound to take notice of or see to the execution of any trust, whether express, implied or constructive, in respect of any Warrant, and may transfer any Warrant on the direction of the person registered as Warrantholder thereof, whether named as trustee or otherwise, as though that person were the beneficial owner thereof.
- (b) Subject to the provisions of this Indenture and applicable law, each Warrantholder shall be entitled to the rights and privileges attaching to the Warrants held thereby. The exercise of the Warrants in accordance with the terms hereof and the

receipt by any such Warrantholder of Common Shares pursuant thereto shall be a good discharge to the Corporation and the Trustee with respect to such Warrants and neither the Corporation nor the Trustee shall be bound to inquire into the title of any such holder.

**ARTICLE 3**  
**Exercise of Warrants**

**3.1 Method of Exercise of Warrants**

- (a) Subject to Section 3.8 and Section 2.2, the holder of any Warrant may exercise the right evidenced thereby conferred on such holder to acquire Common Shares by surrendering, prior to the Time of Expiry or the Accelerated Time of Expiry, as applicable, to the Trustee at a Warrant Agency:
- (i) the Warrant Certificate representing such Warrant, with a duly completed and executed exercise form in the form attached to the Warrant Certificate; and
  - (ii) a certified cheque or bank draft payable to or to the order of the Corporation (or payment in such other form as the Trustee may accept), in the amount of the aggregate Exercise Price of such Warrants being exercised.

A Warrant Certificate with the duly completed and executed exercise form referred to in this subsection 3.1(a) shall be deemed to be surrendered only upon personal delivery thereof or, if sent by mail or other means of transmission, upon actual receipt thereof at, in each case, a Warrant Agency or such other place or places that may be designated by the Corporation with the approval of the Trustee, provided that such Warrant Certificate is accompanied by the requisite payment of the aggregate Exercise Price for the Warrants represented thereby that are being exercised.

- (b) Any exercise form referred to in subsection 3.1(a) shall be signed by the Warrantholder or his executors, administrators or other legal representatives or his attorney duly appointed (such persons being obligated to provide the Trustee at the Warrant Agency with proof satisfactory to the Trustee of his or her authority to act on behalf of the Warrantholder) and shall specify:
- (i) the number of Common Shares which the holder wishes to acquire (being not more than those which the holder is entitled to acquire pursuant to the Warrant Certificate(s) surrendered);
  - (ii) the person or persons in whose name or names such Common Shares are to be issued, and if such persons are individuals, the relevant social insurance numbers;
  - (iii) the address or addresses of such person or persons;

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- (iv) the number of Common Shares to be issued to each such person if more than one is so specified; and
- (v) that the Warrantholder represents, warrants and certifies as set forth in one of box A, box B or box C of the exercise form.

If any of the Common Shares subscribed for are to be issued to a person or persons other than the Warrantholder, the Warrantholder shall pay to the Corporation or the Trustee on behalf of the Corporation, all applicable transfer or similar taxes and the Corporation shall not be required to issue or deliver certificates evidencing Common Shares unless or until such Warrantholder shall have paid to the Corporation, or the Trustee on behalf of the Corporation, the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid or that none is due.

- (c) In connection with the exchange of Warrant Certificates and exercise of Warrants and compliance with such other terms and conditions hereof as may be required, the Corporation has appointed the principal office of the Trustee in each of Calgary and Toronto as an agency at which Warrant Certificates may be surrendered for exchange or at which Warrants may be exercised and the Trustee has accepted such appointment. The Corporation shall give notice to the Trustee of any change of the Warrant Agency.

### **3.2 Effect of Exercise of Warrants**

- (a) Upon compliance by the holder of any Warrant Certificate with the provisions of Section 3.1, and subject to Section 3.3, the Common Shares subscribed for shall be deemed to have been issued as fully paid and non-assessable and the person or persons to whom such Common Shares are to be issued shall be deemed to have become the holder or holders of record of such Common Shares on the Exercise Date unless the transfer registers of the Corporation shall be closed on such date, in which case the Common Shares subscribed for shall be deemed to have been issued and such person or persons shall be deemed to have become the holder or holders of record of such Common Shares, on the date on which such transfer registers are reopened.
- (b) Within five Business Days after the Exercise Date of a Warrant as set forth above, the Corporation shall cause to be mailed to the person or persons in whose name or names the Common Shares so subscribed for have been issued, as specified in the exercise form completed in connection with the exercise of the Warrants, at the address specified in such exercise form or, if so specified in such exercise form, cause to be delivered to such person or persons at the Warrant Agency where the Warrant Certificate was surrendered, a certificate or certificates for the appropriate number of Common Shares subscribed for.

### **3.3 Partial Exercise of Warrants; Fractions**

- (a) The holder of any Warrants may acquire a number of Common Shares less than the number which the holder is entitled to acquire pursuant to the surrendered Warrant Certificate(s). In the event of any exercise of a number of Warrants less than the number which the holder is entitled to exercise, the holder of the Warrants upon exercise thereof shall, in addition, be entitled to receive, without charge therefor, a new Warrant Certificate(s) in respect of the balance of the Warrants which such holder was entitled to exercise pursuant to the surrendered Warrant Certificate(s) and which were not then exercised.
- (b) Notwithstanding anything herein contained including any adjustment provided for in Article 4, the Corporation shall not be required, upon the exercise of any Warrants, to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of fractional Common Shares, the Corporation shall pay to the holder who would otherwise be entitled to receive fractional Common Shares upon an exercise of Warrants, within 10 Business Days after the date upon which the fractional Common Shares would have been issued, an amount in lawful money of Canada equal to the Current Market Price of the Common Shares as of the Exercise Date multiplied by an amount equal to the fractional interest of Common Shares such holder would otherwise be entitled to receive upon such exercise, provided that the Corporation shall not be required to make any payment, calculated as aforesaid, that is less than \$10.00. The price to be paid shall be provided by the Corporation in writing to the Trustee upon request.

### **3.4 Expiration of Warrants**

Immediately after the Time of Expiry or the Accelerated Time of Expiry, as applicable, all rights under any Warrant in respect of which the right of acquisition herein and therein provided for shall not have been exercised shall cease and terminate and such Warrant shall be void and of no further force or effect.

### **3.5 Cancellation of Surrendered Warrants**

All Warrant Certificates surrendered to the Trustee pursuant to Sections 2.8, 2.9, 2.10, 3.1, 3.3 and 5.1 shall be cancelled by the Trustee and, after the expiry of any period of retention prescribed by law, destroyed by the Trustee and, upon written request by the Corporation, the Trustee shall furnish to the Corporation a destruction certificate identifying the Warrant Certificates so destroyed, the number of Warrants evidenced thereby and the number of Common Shares which could have been purchased pursuant thereto.

### **3.6 Accounting and Recording**

- (a) The Trustee shall as soon as reasonably practicable account to the Corporation with respect to Warrants exercised. Any monies, securities or other instruments, from time to time received by the Trustee pursuant to the exercise of Warrants

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shall be received in trust for and shall be segregated and kept apart by the Trustee in trust for the Corporation.

- (b) The Trustee shall record the particulars of Warrants exercised which shall include the names and addresses of the persons who become holders of Common Shares on exercise and the Exercise Date. Within five Business Days of each Exercise Date, the Trustee shall provide such particulars in writing to the Corporation.

### 3.7 Common Share Certificates

Notwithstanding anything herein contained, Common Shares will only be issued pursuant to the exercise of Warrants in compliance with applicable securities laws of any jurisdiction. At the instruction of the Corporation, Common Shares issued in connection with the exercise of the Warrants may bear such legends as may be required by applicable securities regulatory requirements, authorities or stock exchanges, including, without limitation, the Toronto Stock Exchange.

### 3.8 Prohibition on Exercise by U.S. Persons; Exception

- (a) Warrants may not be exercised in the United States or by or on behalf of a U.S. Person or a person in the United States unless the offer of Common Shares pursuant to the Warrants is registered under the 1933 Act or an exemption is available from the registration requirements of the 1933 Act and applicable state securities laws;
- (b) Any holder which exercises a Warrant shall provide to the Corporation and the Trustee, and the Corporation and the Trustee shall be entitled to act and rely thereon, either:
  - (i) a written certification that such holder (i) at the time of exercise of the Warrant is not in the United States or exercising the Warrant on behalf of a person in the United States; (ii) is not a U.S. Person and is not exercising the Warrant, on behalf of a U.S. Person; and (iii) did not execute or deliver the exercise form for the Warrant in the United States;
  - (ii) a written certification that such holder (i) originally purchased the Warrant on its own behalf or on behalf of a beneficial purchaser (a “**Beneficial Purchaser**”), directly from the Corporation pursuant to the Corporation’s offering of Units at a time when the holder was and any Beneficial Purchaser was an accredited investor, as defined in Rule 501(a) under the 1933 Act (“**Accredited Investor**”); (ii) is exercising the Warrant solely for its own account or for the account of the Beneficial Purchaser, if any, and not on behalf of any other person; and (iii) is, and the Beneficial Purchaser, if any, is, an Accredited Investor on the date of exercise of the Warrant; or
  - (iii) a written opinion of counsel of recognized standing in form and substance satisfactory to the Corporation to the effect that an exemption from the

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registration requirements of the 1933 Act and applicable state securities laws is available for the issuance of the Common Shares issuable on exercise of the Warrants.

- (c) No certificates representing Common Shares will be registered or delivered to an address in the United States unless the holder of Warrants complies with the requirements set forth in subsection 3.8(b)(ii) or subsection 3.8(b)(iii) and, in the case of subsection 3.8(b)(iii), the Corporation has confirmed in writing to the Trustee that the opinion of counsel is satisfactory to the Corporation.

#### **ARTICLE 4**

##### **Adjustment of Number of Common Shares**

#### **4.1 Adjustment of Number of Common Shares**

The acquisition rights as they relate to Common Shares, attaching to the Warrants in effect at any date, and the Exercise Price in respect thereof, shall be subject to adjustment from time to time as follows:

- (a) If and whenever at any time during the Adjustment Period, the Corporation shall:
  - (i) subdivide, redivide or change outstanding Common Shares into a greater number of shares,
  - (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of shares, or
  - (iii) issue Common Shares or securities exchangeable for or convertible into Common Shares at no additional cost to the holders of all or substantially all of the outstanding Common Shares by way of a stock dividend or other distribution (other than the issue of Common Shares to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of Common Shares in lieu of Dividends Paid in the Ordinary Course on the Common Shares),

(any of such events in these clauses (i), (ii) and (iii) being called a “**Common Share Reorganization**”), then effective immediately after the record date at which the holders of Common Shares are determined for the purposes of the Common Share Reorganization, the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Common Shares outstanding on such record date before giving effect to such Common Share Reorganization and the denominator of which shall be the number of Common Shares outstanding after giving effect to such Common Share Reorganization (including, in the case where securities exchangeable for or convertible into Common Shares at no additional cost are distributed, the number of Common Shares that would have been outstanding had such securities been exchanged for or converted into Common Shares on such record date). Upon any adjustment to

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the Exercise Price pursuant to subsection 4.1(a), the number of Common Shares subject to the right of purchase under each Warrant shall be contemporaneously adjusted by multiplying the number of Common Shares which theretofore may have been purchased under such Warrant by a fraction of which the numerator shall be the respective Exercise Price in effect immediately prior to such adjustment and the denominator shall be the respective Exercise Price resulting from such adjustment.

- (b) If and whenever at any time during the Adjustment Period, the Corporation shall fix a record date for the issuance of rights, options or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible or exchangeable into Common Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Common Share on such record date, the Exercise Price shall be adjusted immediately after such record date so that it shall equal the amount determined by multiplying the Exercise Price in effect on such record date by a fraction of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered) by such Current Market Price, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase or into which the convertible or exchangeable securities so offered are convertible or exchangeable; any Common Shares owned by or held for the account of the Corporation or any Subsidiary shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that any such rights, options or warrants are not exercised prior to the expiration thereof, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed or to the Exercise Price which would then be in effect based upon the number of Common Shares (or securities convertible or exchangeable into Common Shares) actually issued upon the exercise of such rights, options or warrants, as the case may be.
- (c) If and whenever at any time during the Adjustment Period, the Corporation shall fix a record date for the making of a distribution to all or substantially all the holders of its outstanding Common Shares of (i) securities of any class, whether of the Corporation or any other person (other than Common Shares and other than securities distributed to holders of Common Shares pursuant to their exercise of options to receive dividends in the form of such securities in lieu of Dividends Paid in the Ordinary Course on the Common Shares), (ii) rights, options or warrants (excluding those referred to in subsection 4.1(b)), (iii) evidences of its indebtedness or (iv) assets (excluding Dividends Paid in the Ordinary Course) then, in each such case, the Exercise Price shall be adjusted immediately after

such record date so that it shall equal the price determined by multiplying the Exercise Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date multiplied by the Current Market Price of a Common Share on such record date, less the aggregate fair market value (as determined by the directors, which determination shall be conclusive) of such securities shares, rights, options, warrants, evidences of indebtedness or assets so distributed, and of which the denominator shall be the total number of Common Shares outstanding on such record date multiplied by such Current Market Price; any Common Shares owned by or held for the account of the Corporation or any Subsidiary shall be deemed not to be outstanding for the purpose of any such computation; such adjustment shall be made successively whenever such a record date is fixed; to the extent that such distribution is not so made, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect if such record date had not been fixed or to the Exercise Price which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or assets actually is distributed, as the case may be; in clause (iv) of this subsection 4.1(c) the term “Dividends Paid in the Ordinary Course” shall include the value of any securities or other property or assets distributed in lieu of cash Dividends Paid in the Ordinary Course at the option of Shareholders.

- (d) If and whenever at any time during the Adjustment Period, there is a reclassification of the Common Shares or a capital reorganization of the Corporation (other than as described in subsection 4.1(a)) or a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other body corporate, trust, partnership or other entity, or a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity or a liquidation, dissolution or winding up of the Corporation (any of such events being hereinafter called a “**Capital Reorganization**”), any Warrantholder who has not exercised its right of acquisition prior to the effective date of such Capital Reorganization, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of Common Shares then sought to be acquired by it, the number of shares or other securities or property of the Corporation or of the body corporate, trust, partnership or other entity resulting from such Capital Reorganization, or to which such sale or conveyance may be made, as the case may be, that such Warrantholder would have been entitled to receive on such Capital Reorganization, if, on the record date or the effective date thereof, as the case may be, the Warrantholder had been the registered holder of the number of Common Shares sought to be acquired by it and to which it was entitled to acquire upon exercise of the Warrants. If determined appropriate by the Trustee to give effect to or to evidence the provisions of this subsection 4.1(d), the Corporation, its successor, or such purchasing body corporate, partnership, trust or other entity, as the case may be, shall, prior to or contemporaneously with any such Capital Reorganization, enter into an indenture which shall provide, to the extent possible, for the application of the provisions set forth in this Indenture with respect to the rights and interests thereafter of the Warrantholders to the end

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that the provisions set forth in this Indenture shall thereafter correspondingly be made applicable, as nearly as may reasonably be, with respect to any shares, other securities or property to which a Warrantholder is entitled on exercise of its acquisition rights thereafter. Any indenture entered into between the Corporation and the Trustee pursuant to the provisions of this subsection 4.1(d) shall be a supplemental indenture entered into pursuant to the provisions of Article 8. Any indenture entered into between the Corporation, any successor to the Corporation or such purchasing body corporate, partnership, trust or other entity and the Trustee shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section 4.1 and which shall apply to successive Capital Reorganizations.

- (e) Notwithstanding any other provision of this Indenture, in the event of a Corporate Transaction, each Warrant will terminate immediately prior to the specified effective date of the Corporate Transaction, unless the Warrant is assumed by the successor corporation (or person) or its parent corporation (or person) in connection with the Corporate Transaction. Upon approval of a Corporate Transaction by the directors of the Corporation, the Corporation will give notice to each Warrantholder which will set forth terms that permit a Warrantholder to exercise its Warrants on a basis that provides the Warrantholder with the ability to participate in the Corporate Transaction or, failing completion of the Corporate Transaction, to retain all rights under the Warrants in accordance with the terms of this Indenture. A copy of such notice shall be sent to the Warrant Trustee.
- (f) In any case in which this Section 4.1 shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Corporation may defer, until the occurrence of such event, issuing to the holder of any Warrant exercised after such record date and before the occurrence of such event the additional Common Shares or other securities or property issuable upon such exercise by reason of the adjustment required by such event; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Common Shares or other securities or property upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares or other securities or property declared in favour of holders of record of Common Shares or such other securities or property on and after the relevant date of exercise or such later date as such holder would, but for the provisions of this subsection 4.1(f), have become the holder of record of such additional Common Shares or other securities or property pursuant to subsection 4.1(b).
- (g) In any case in which subsections 4.1(a), 4.1(b) or 4.1(c) require that an adjustment be made to the Exercise Price, no such adjustment shall be made if, subject to the prior approval of the Toronto Stock Exchange (or other stock exchange or trading system on which the Common Shares or Warrants are listed for trading), the holders of the outstanding Warrants receive the Common Shares or securities exchangeable for or convertible into Common Shares referred to in subsection

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4.1(a), the rights, options or warrants referred to in subsection 4.1(b) or the securities, rights, options, warrants, evidences of indebtedness or assets referred to in subsection 4.1(c), as the case may be, in such kind and number as they would have received if they had been holders of Common Shares on the applicable record date or effective date, as the case may be, by virtue of their outstanding Warrant having then been exercised into Common Shares at the Exercise Price in effect on the applicable record or effective date, as the case may be.

- (h) The adjustments provided for in this Section 4.1 are cumulative and shall, in the case of adjustments to the Exercise Price, be computed to the nearest whole cent and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section 4.1, provided that, notwithstanding any other provision of this Section, no adjustment of the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price then in effect; provided, however, that any adjustments which by reason of this subsection 4.1(h) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (i) After any adjustment pursuant to this Section 4.1, the term “Common Shares” where used in this Indenture shall be interpreted to mean securities of any class or classes which, as a result of such adjustment and all prior adjustments pursuant to this Section 4.1, the Warrantholder is entitled to receive upon the exercise of his Warrant and the number of Common Shares indicated by any exercise made pursuant to a Warrant shall be interpreted to mean the number of Common Shares or other property or securities a Warrantholder is entitled to receive, as a result of such adjustment and all prior adjustments pursuant to this Section 4.1, upon the full exercise of a Warrant.

#### **4.2 Entitlement to Shares on Exercise of Warrant**

All shares of any class or other securities or property which a Warrantholder is at the time in question entitled to receive on the exercise of its Warrant, whether or not as a result of adjustments made pursuant to this Article 4, shall, for the purposes of the interpretation of this Indenture, be deemed to be shares which such Warrantholder is entitled to acquire pursuant to such Warrant.

#### **4.3 No Adjustment for Stock Options or Warrants**

Anything in this Article 4 to the contrary notwithstanding, no adjustment shall be made in the acquisition rights attached to the Warrants if the issue of Common Shares is being made pursuant to this Indenture, pursuant to any stock option, stock purchase, stock appreciation rights or other employee compensation plan in force from time to time for directors, officers, employees or consultants of the Corporation or any of its Subsidiaries, as the case may be, or pursuant to any warrant outstanding immediately prior to the Effective Date.

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**4.4 Determination by Corporation's Auditors**

In the event of any question arising with respect to the adjustments provided for in this Article 4, such question shall be conclusively determined by the Corporation's Auditors or if they are unable or unwilling to act, by such other firm of independent chartered accountants as may be selected by the Corporation. Such auditors or accountants shall have access to all necessary records of the Corporation, and such determination shall be binding upon the Corporation, the Trustee, all Warrantholders and all other persons interested therein (absent manifest error).

**4.5 Proceedings Prior to any Action Requiring Adjustment**

As a condition precedent to the taking of any action which would require an adjustment in any of the acquisition rights pursuant to any of the Warrants, including the number of Common Shares which are to be received upon the exercise thereof, the Corporation shall take any corporate action which may, in the opinion of Counsel, be necessary in order that the Corporation has sufficient unissued and reserved shares in its authorized capital and may validly and legally issue as fully paid and non-assessable all the Common Shares or other securities or property which the holders of such Warrants are entitled to receive on the full exercise thereof in accordance with the provisions hereof.

**4.6 Certificate of Adjustment**

The Corporation shall from time to time immediately after the occurrence of any event which requires an adjustment or readjustment as provided in Article 4, deliver a certificate of the Corporation to the Trustee specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment shall, if requested by the Trustee, be supported by a certificate of the Corporation's Auditors verifying such calculation. When so verified, the Trustee shall forthwith give notice, supplied by the Corporation and at the Corporation's expense, to the Warrantholders specifying the event requiring such adjustment or readjustment and the results thereof including the resulting Exercise Price; provided that, if the Corporation has given notice under Section 4.7 covering all the relevant facts in respect of such event, no such notice to the Warrantholders need be given under this Section 4.6. Any certificate of the Corporation delivered pursuant to this Section 4.6 and the results of the adjustment specified therein shall, subject to provisions of Section 4.4 and absent manifest error, be conclusive and binding on all Warrantholders.

**4.7 Notice of Special Matters**

The Corporation covenants with the Trustee that, so long as any Warrant remains outstanding, it will give notice to the Trustee and to the Warrantholders of its intention to fix the record date for any event referred to in subsections 4.1(a), (b), (c) or (d) or the proposed effective date for a Corporate Transaction which may give rise to an adjustment of the Exercise Price. Such notice shall specify the particulars of such event and the record date for such event, provided that the Corporation shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which the notice is given. The notice shall be given in each case not less than 10 Business Days prior to such applicable record date.

#### **4.8 No Action after Notice**

The Corporation covenants with the Trustee that it will not close its transfer books or take any other corporate action which might deprive the holder of a Warrant of the opportunity to exercise its right of acquisition pursuant thereto during the period of 10 Business Days after the giving of the certificate or notices set forth in Sections 4.6 and 4.7 or, in the case of a Corporation Transaction.

#### **4.9 Protection of Trustee**

Except as provided in Section 9.2, the Trustee:

- (a) shall be entitled to act and rely on any adjustment calculation of the Corporation or the Corporation's Auditors;
- (b) shall not at any time be under any duty or responsibility to any Warrantholder to determine whether any facts exist which may require any adjustment contemplated by Section 4.1, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making the same;
- (c) shall not be accountable with respect to the validity or value (or the kind or amount) of any Common Shares or of any shares or other securities or property which may at any time be issued or delivered upon the exercise of the rights attaching to any Warrant;
- (d) shall not be responsible for any failure of the Corporation to issue, transfer or deliver Common Shares or certificates for the same upon the surrender of any Warrants for the purpose of the exercise of such rights or to comply with any of the covenants contained in this Article; and
- (e) shall not incur any liability or responsibility whatsoever or be in any way responsible for the consequences of any breach on the part of the Corporation of any of the representations, warranties or covenants herein contained.

#### **4.10 Other Adjustments**

In case the Corporation after the date hereof shall take any action affecting the Common Shares, other than an action described in Article 4 which in the opinion of the directors would have a material adverse affect on the rights of Warrantholders, the Exercise Price and/or the number and/or kind of Common Shares purchasable upon exercise, there shall be an adjustment in such manner, if any, and at such time, by action by the directors subject to the prior consent of the Toronto Stock Exchange, if applicable. Failure of the taking of action by the directors so as to provide for an adjustment prior to the effective date of any action by the Corporation affecting the Common Shares shall be conclusive evidence that the directors have determined that it is equitable to make no adjustment in the circumstances.

**ARTICLE 5**  
**Rights and Covenants of The Corporation**

**5.1 Optional Purchases by the Corporation**

The Corporation may from time to time purchase by private contract, in the open market, on any stock exchange or otherwise any of the Warrants. Any such purchase shall be made at the lowest price or prices at which, in the opinion of the directors, such Warrants are then obtainable, plus reasonable costs of purchase, and may be made in such manner, from such persons and on such other terms as the Corporation, in its sole discretion, may determine subject to compliance with all applicable laws. Any Warrant Certificates representing the Warrants purchased pursuant to this Section 5.1 shall forthwith be delivered to and cancelled by the Trustee. No Warrants shall be issued in replacement thereof.

**5.2 General Covenants**

The Corporation covenants with the Trustee that so long as any Warrants remain outstanding:

- (a) the Warrants, when issued and countersigned as provided in this Indenture, will be valid and binding obligations enforceable against it in accordance with and subject to the provisions of this Indenture;
- (b) it will reserve and keep available a sufficient number of Common Shares for the purpose of enabling it to satisfy its obligations to issue Common Shares upon the exercise of the Warrants;
- (c) it will cause the Common Shares and the certificates representing the Common Shares from time to time acquired pursuant to the exercise of the Warrants to be duly issued and delivered in accordance with the Warrant Certificates and the terms hereof;
- (d) all Common Shares which shall be issued upon exercise of the right to acquire provided for herein and in the Warrant Certificates shall be fully paid and non-assessable;
- (e) the Corporation will do, or cause to be done, all things necessary to preserve and keep in full force and effect its corporate existence, provided however that (subject to Article 4 and Section 8.2) nothing will prevent the amalgamation, consolidation, merger or sale of, or other business combination involving the Corporation;
- (f) it will use its best efforts to ensure that the Warrants and all Common Shares outstanding or issuable from time to time continue to be or are listed and posted for trading on the Toronto Stock Exchange (or such other Canadian stock exchange acceptable to the Corporation);
- (g) it will perform and carry out all of the acts or things to be done by it as provided in this Indenture;

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- (h) it will not close its transfer registers or take any other action which might deprive the Warrantholders of the opportunity of exercising their right of purchase pursuant to the Warrants held by such persons during the period of fourteen days after giving of the notice required by Section 4.7; and
- (i) that it will execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, all other acts, deeds and assurances in law as the Trustee may reasonably require for the better accomplishing and effecting the intentions and provisions of this Indenture.

**5.3 Trustee's Remuneration and Expenses**

The Corporation covenants that it will pay to the Trustee from time to time reasonable remuneration for its services hereunder and will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in the administration or execution of the trusts hereby created (including the reasonable compensation and the disbursements of its Counsel and all other advisers and assistants not regularly in its employ) both before any default hereunder and thereafter until all duties of the Trustee hereunder shall be finally and fully performed, except any such expense, disbursement or advance as may arise out of or result from the Trustee's negligence, willful misconduct or bad faith.

**5.4 Performance of Covenants by Trustee**

If the Corporation shall fail to perform any of its covenants contained in this Warrant Indenture, the Trustee may notify the Warrantholders of such failure on the part of the Corporation or may itself perform any of the covenants capable of being performed by it but, subject to Section 9.2, shall be under no obligation to perform such covenants or to notify the Warrantholders of such performance by it. All sums expended or advanced by the Trustee in so doing shall be repayable as provided in Section 5.3. No such performance, expenditure or advance by the Trustee shall relieve the Corporation of any default hereunder or of its continuing obligations under the covenants herein contained.

**ARTICLE 6**  
**Enforcement**

**6.1 Suits by Warrantholders**

- (a) No Warrantholder has the right to institute any action or proceeding or to exercise any other remedy authorized hereunder for the purpose of enforcing any right on behalf of the Warrantholders or for the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or receiver and manager or for a receiving order under the *Bankruptcy and Insolvency Act* (Canada) or to have the Corporation wound up or to file or prove a claim in any liquidation or bankruptcy proceedings, unless the Warrant Trustee has received a Warrantholders' Request directing it to take the requested action and has been provided with sufficient funds or other security and/or such indemnity satisfactory to the Warrant Trustee in respect of the costs, expenses and liabilities that may be incurred by it in so proceeding and the Warrant Trustee has failed to act within a reasonable time

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thereafter. If the Warrant Trustee has so failed to act, but not otherwise, any Warrantholder acting on behalf of all Warrantholders will be entitled to take any of the proceedings that the Warrant Trustee might have taken hereunder. No Warrantholder has any right in any manner whatsoever to effect, disturb or prejudice the rights hereby created by its action or to enforce any right hereunder or under any Warrant, except subject to the conditions and in the manner herein provided. Any money received as a result of a proceeding taken by any Warrantholder hereunder must be forthwith paid to the Warrant Trustee.

- (b) All rights of action under this Indenture may be enforced by the Warrant Trustee without the possession of any of the Warrants or the production thereof on any trial or other proceedings relative thereto.
- (c) The Warrant Trustee shall be entitled and empowered, either in its own name or as Warrant Trustee of an express trust, or as attorney-in-fact for the Warrantholders, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claim of the Warrant Trustee and the Warrantholders allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property. The Warrant Trustee is hereby irrevocably appointed (and the successive respective Warrantholders by taking and holding the same shall be conclusively deemed to have so appointed the Warrant Trustee) the true and lawful attorney-in-fact of the respective Warrantholders or on behalf of the Warrantholders as a class, subject to deduction from any such claims of the amounts of any claims filed by any of the Warrantholders themselves if and to the extent permitted hereunder, for any proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all such acts and things for and on behalf of the Warrantholders, as may be necessary or advisable in the opinion of the Warrant Trustee, in order to have the respective claims of the Warrant Trustee and of the Warrantholders against the Corporation or its property allowed in any such proceeding, and to receive payment of or on account of such claims; provided, however, that nothing contained in this Indenture shall be deemed to give the Warrant Trustee, unless so authorized by extraordinary resolution (as provided in Section 7.11), any right to accept or consent to any plan of reorganization or otherwise by action of any character in such proceeding to waive or change in any way any right of any Warrantholder.
- (d) The Warrant Trustee shall also have the power, but not the obligation, at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Warrantholders.
- (e) Any such suit or proceeding instituted by the Warrant Trustee may be brought in the name of the Warrant Trustee as Warrant Trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the Warrantholders

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subject to provisions of this Indenture. In any proceeding brought by the Warrant Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Warrant Trustee shall be a party), the Warrant Trustee shall be held to represent all the Warrantholders, and it shall not be necessary to make any Warrantholders parties to any such proceeding.

**6.2 Suits by the Corporation**

The Corporation shall have the right to enforce full payment of the Exercise Price for all Common Shares issued by the Corporation to a Warrantholder hereunder and shall be entitled to demand such payment from the Warrantholder or alternatively to instruct the Trustee to cancel the share certificates and amend the securities register accordingly.

**6.3 Limitation of Liability**

The obligations of the Corporation hereunder are not binding upon, nor shall resort hereunder be had to, the private property of any of the past, present or future directors or Shareholders of the Corporation or any successor to the Corporation or any of the past, present or future officers, employees or agents of the Corporation or any successor to the Corporation, but only the property of the Corporation or any successor to the Corporation shall be bound in respect hereof.

**6.4 Waiver of Default**

Upon the happening of any default hereunder:

- (a) the holders of not less than 51% of the Warrants then outstanding shall have power (in addition to the powers exercisable by extraordinary resolution as provided in Section 7.10) by requisition in writing to instruct the Trustee to waive any default hereunder and the Trustee shall thereupon waive the default upon such terms and conditions as shall be prescribed in such requisition; or
- (b) the Trustee shall have power to waive any default hereunder upon such terms and conditions as the Trustee may deem advisable, if, in the Trustee's opinion, the same shall have been cured or adequate provision made therefor;

provided that no delay or omission of the Trustee or of the Warrantholders to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein and provided further that no act or omission either of the Trustee or of the Warrantholders in the premises shall extend to or be taken in any manner whatsoever to affect any subsequent default hereunder of the rights resulting therefrom.

**ARTICLE 7**  
**Meetings Of Warrantholders**

**7.1 Right to Convene Meetings**

The Trustee may at any time and from time to time, and shall on receipt of a written request of the Corporation or of a Warrantholders' Request and upon receiving sufficient funds to cover any costs and expenses and/or being indemnified to its reasonable satisfaction by the Corporation or by the Warrantholders signing such Warrantholders' Request against the cost which may be incurred in connection with the calling and holding of such meeting, convene a meeting of the Warrantholders. In the event of the Trustee failing to so convene a meeting within 15 days after receipt of such written request of the Corporation or such Warrantholders' Request and sufficient funds and/or indemnity given as aforesaid, the Corporation or such Warrantholders, as the case may be, may convene such meeting. Every such meeting shall be held in the City of Calgary, the City of Toronto or at such other place as may be approved or determined by the Trustee and the Corporation.

**7.2 Notice**

At least 21 day's prior notice of any meeting of Warrantholders shall be given to the Warrantholders in the manner provided for in Section 10.2 and a copy of such notice shall be sent to the Trustee (unless the meeting has been called by the Trustee) and to the Corporation (unless the meeting has been called by the Corporation) in the manner provided for in Section 10.1. Such notice shall state the time when and the place where the meeting is to be held, shall state briefly the general nature of the business to be transacted thereat and shall contain such information as is reasonably necessary to enable the Warrantholders to make a reasoned decision on the matters to be considered at the meeting, but it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Article 7. The notice convening any such meeting may be signed by an appropriate officer of the Trustee or the Corporation or by the Warranholder or Warrantholders convening the meeting.

**7.3 Chairman**

An individual (who need not be a Warranholder) designated in writing by the Trustee shall be chairman of the meeting and if no individual is so designated, or if the individual so designated is not present within 15 minutes from the time fixed for the holding of the meeting, the Warrantholders present in person or by proxy shall choose an individual present to be chairman.

**7.4 Quorum**

Subject to the provisions of Section 7.11, at any meeting of the Warrantholders a quorum shall consist of Warrantholders present in person or by proxy and entitled to purchase at least 10% of the aggregate number of Common Shares which could be acquired pursuant to all the then outstanding Warrants, provided that at least two persons entitled to vote thereat are personally present. If a quorum of the Warrantholders shall not be present within 30 minutes from the time fixed for holding any meeting, the meeting, if summoned by the Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day, in which case it shall be

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adjourned to the next following Business Day) at the same time and place and no notice of the adjournment need be given. Any business may be brought before or dealt with at an adjourned meeting which might have been dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting unless a quorum be present at the commencement of business. At the adjourned meeting the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened, notwithstanding that they may not be entitled to acquire at least 10% of the aggregate number of Common Shares which may be acquired pursuant to all then outstanding Warrants.

### **7.5 Power to Adjourn**

The chairman of any meeting at which a quorum of the Warrantholders is present may, with the consent of the meeting, adjourn any such meeting, and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

### **7.6 Show of Hands**

Every question submitted to a meeting shall be decided in the first place by a majority of the votes given on a show of hands except that votes on an extraordinary resolution shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact.

### **7.7 Poll and Voting**

On every extraordinary resolution, and on any other question submitted to a meeting and after a vote by show of hands, when demanded by the chairman or by one or more of the Warrantholders acting in person or by proxy, a poll shall be taken in such manner as the chairman shall direct. Questions other than those required to be determined by extraordinary resolution shall be decided by a majority of the votes cast on the poll.

On a show of hands, every person who is present and entitled to vote, whether as a Warrantholder or as proxy for one or more absent Warrantholders, or both, shall have one vote. On a poll, each Warrantholder present in person or represented by a proxy duly appointed by instrument in writing shall be entitled to one vote in respect of each whole Common Share which the holder is entitled to acquire pursuant to the Warrant or Warrants then held or represented by him. A proxy need not be a Warrantholder. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Warrants, if any, held or represented by him.

### **7.8 Regulations**

Subject to compliance with the provisions of this Indenture, the Trustee, or the Corporation with the approval of the Trustee, may from time to time make and from time to time make and vary such regulations as it shall think fit for:

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- (a) the setting of the record date for a meeting for the purpose of determining Warrantholders entitled to receive notice of and to vote at the meeting;
- (b) for Warrantholders to appoint a proxy or proxies to represent them and vote for them at any such meeting (and any adjournment thereof) and the manner in which same is to be executed, and for the production of the authority of any persons signing on behalf of the Warrantholder appointing them;
- (c) the deposit of instruments appointing proxies at such place and time as the Trustee, the Corporation or the Warrantholders convening the meeting, as the case may be, may in the notice convening the meeting direct;
- (d) the deposit of instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed or sent by facsimile before the meeting to the Corporation or to the Trustee at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting;
- (e) the form of the instrument of proxy or the manner in which it must be executed; and
- (f) generally for the calling of meetings of Warrantholders and the conduct of business thereat.

Any regulations so made shall be binding and effective and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only persons who shall be recognized at any meeting as a Warrantholder, or be entitled to vote or be present at the meeting in respect thereof (subject to Section 7.9), shall be Warrantholders, their authorized representatives or attorneys and legal counsel, or proxies of Warrantholders.

### **7.9 Corporation and Trustee May be Represented**

The Corporation and the Trustee, by their respective directors, officers and employees, and the Counsel for the Corporation and for the Trustee may attend any meeting of the Warrantholders, but shall have no vote thereat, whether in respect of any Warrants held by them or otherwise.

### **7.10 Powers Exercisable by Extraordinary Resolution**

In addition to all other powers conferred upon them by any other provisions of this Indenture or by law, the Warrantholders shall, subject to the provisions of Section 7.11, have the power, exercisable from time to time by extraordinary resolution:

- (a) to agree to any modification, abrogation, alteration, compromise or arrangement of the rights of Warrantholders or, subject to the consent of the Trustee, the Trustee in its capacity as trustee hereunder or on behalf of the Warrantholders against the Corporation whether such rights arise under this Indenture or the Warrant Certificates or otherwise;

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- (b) to amend, alter or repeal any extraordinary resolution previously passed or sanctioned by the Warrantholders;
- (c) to direct or to authorize the Trustee to enforce any of the covenants on the part of the Corporation contained in this Indenture or the Warrant Certificates or to enforce any of the rights of the Warrantholders in any manner specified in such extraordinary resolution or to refrain from enforcing any such covenant or right;
- (d) to waive, and to direct the Trustee to waive, any default on the part of the Corporation in complying with any provisions of this Indenture or the Warrant Certificates either unconditionally or upon any conditions specified in such extraordinary resolution;
- (e) to restrain any Warrantholder from taking or instituting any suit, action or proceeding against the Corporation for the enforcement of any of the covenants on the part of the Corporation in this Indenture or the Warrant Certificates or to enforce any of the rights of the Warrantholders;
- (f) to direct any Warrantholder who, as such, has brought any suit, action or proceeding to stay or to discontinue or otherwise to deal with the same upon payment of the costs, charges and expenses reasonably and properly incurred by such Warrantholder in connection therewith;
- (g) to assent to any change in or omission from the provisions contained in the Warrant Certificates and this Indenture or any ancillary or supplemental instrument which may be agreed to by the Corporation, and to authorize the Trustee to concur in and execute any ancillary or supplemental indenture embodying the change or omission;
- (h) with the consent of the Corporation, to remove the Trustee or its successor in office and to appoint a new trustee or trustees to take the place of the Trustee so removed; and
- (i) to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of shares or other securities of the Corporation.

**7.11 Meaning of Extraordinary Resolution**

- (a) The expression “extraordinary resolution” when used in this Indenture means, subject as hereinafter provided in this Section 7.11 and in Section 7.14, a resolution proposed at a meeting of Warrantholders duly convened for that purpose and held in accordance with the provisions of this Article 7 at which there are present in person or by proxy Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants and passed by the affirmative votes of Warrantholders entitled to acquire not less than 66 <sup>2</sup>/<sub>3</sub>% of the aggregate number

of Common Shares which may be acquired pursuant to all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution.

- (b) If, at the meeting at which an extraordinary resolution is to be considered, Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants are not present in person or by proxy within 30 minutes after the time appointed for the meeting, then the meeting, if convened by Warrantholders or on a Warrantholders' Request, shall be dissolved; but in any other case it shall stand adjourned to such day, being not less than 15 or more than 60 days later, and to such place and time as may be appointed by the chairman. Not less than five days' prior notice shall be given of the time and place of such adjourned meeting in the manner provided for in Section 10.2. Such notice shall state that at the adjourned meeting the Warrantholders present in person or by proxy shall form a quorum but it shall not be necessary to set forth the purposes for which the meeting was originally called or any other particulars. At the adjourned meeting, the Warrantholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such adjourned meeting and passed by the requisite vote as provided in subsection 7.11(a) shall be an extraordinary resolution within the meaning of this Indenture notwithstanding that Warrantholders entitled to acquire at least 25% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants are not present in person or by proxy at such adjourned meeting.
- (c) Votes on an extraordinary resolution shall always be given on a poll and no demand for a poll on an extraordinary resolution shall be necessary.

#### **7.12 Powers Cumulative**

Any one or more of the powers or any combination of the powers in this Indenture stated to be exercisable by the Warrantholders by extraordinary resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers or any combination of powers from time to time shall not be deemed to exhaust the right of the Warrantholders to exercise such power or powers or combination of powers then or thereafter from time to time.

#### **7.13 Minutes**

Minutes of all resolutions and proceedings at every meeting of Warrantholders shall be made and duly entered in books to be provided from time to time for that purpose by the Corporation, and any such minutes as aforesaid, if signed by the chairman or the secretary of the meeting at which such resolutions were passed or proceedings had shall be prima facie evidence of the matters therein stated and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes shall have been made shall be deemed to have been duly convened and held, and all resolutions passed thereat or proceedings taken shall be deemed to have been duly passed and taken.

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**7.14 Instruments in Writing**

All actions which may be taken and all powers that may be exercised by the Warrantholders at a meeting held as provided in this Article 7 may also be taken and exercised by Warrantholders entitled to acquire at least 66 2/3% of the aggregate number of Common Shares which may be acquired pursuant to all the then outstanding Warrants by an instrument in writing signed in one or more counterparts by such Warrantholders in person or by attorney duly appointed in writing, and the expression “extraordinary resolution” when used in this Indenture shall include an instrument so signed.

**7.15 Binding Effect of Resolutions**

Every resolution and every extraordinary resolution passed in accordance with the provisions of this Article 7 at a meeting of Warrantholders shall be binding upon all the Warrantholders, whether present at or absent from such meeting, and every instrument in writing signed by Warrantholders in accordance with Section 7.14 shall be binding upon all the Warrantholders, whether signatories thereto or not, and each and every Warrantholder and the Trustee (subject to the provisions for indemnity herein contained) shall be bound to give effect accordingly to every such resolution and instrument in writing.

**7.16 Holdings by Corporation Disregarded**

In determining whether Warrantholders holding Warrant Certificates evidencing the entitlement to acquire the required number of Common Shares are present at a meeting of Warrantholders for the purpose of determining a quorum or have concurred in any consent, waiver, extraordinary resolution, Warrantholders' Request or other action under this Indenture, Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation shall be disregarded in accordance with the provisions of Section 10.7.

**ARTICLE 8**  
**Supplemental Indentures**

**8.1 Provision for Supplemental Indentures for Certain Purposes**

From time to time the Corporation (when authorized by action of the directors) and the Trustee may, subject to the provisions hereof, and they shall, when so directed in accordance with the provisions hereof, execute and deliver by their proper directors or officers, indentures or instruments supplemental hereto, which thereafter shall form part hereof, for any one or more or all of the following purposes:

- (a) setting forth any adjustments resulting from the application of the provisions of Article 4;
- (b) adding to the provisions hereof such additional covenants and enforcement provisions as, in the opinion of Counsel, are necessary or advisable in the premises, provided that the same are not in the opinion of the Trustee relying on the advice of Counsel, prejudicial to the interests of the Warrantholders;

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- (c) giving effect to any extraordinary resolution passed as provided in Article 7;
- (d) making such provisions not inconsistent with this Indenture as may be necessary or desirable with respect to matters or questions arising hereunder or for the purpose of obtaining or maintaining a listing or quotation of the Warrants on any stock exchange, provided that such provisions are not, in the opinion of the Trustee relying on the advice of Counsel, prejudicial to the interests of the Warrantholders;
- (e) modifying any of the provisions of this Indenture, including relieving the Corporation from any of the obligations, conditions or restrictions herein contained, provided that such modification or relief shall be or become operative or effective only if, in the opinion of the Trustee relying on the advice of Counsel, such modification or relief in no way prejudices any of the rights of the Warrantholders or of the Trustee, and provided further that the Trustee may in its sole discretion decline to enter into any such supplemental indenture which in its opinion may not afford adequate protection to the Trustee when the same shall become operative; and
- (f) for any other purpose not inconsistent with the terms of this Indenture, including the correction or rectification of any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions herein, provided that in the opinion of the Trustee relying on the advice of Counsel the rights of the Trustee and of the Warrantholders are in no way prejudiced thereby.

Notwithstanding anything to the contrary in this Indenture, no supplement or amendment to this Indenture or to the provisions of the Warrants may be made without the prior consent of the Toronto Stock Exchange (or such other stock exchange on which the Common Shares may be listed for trading), if required.

## **8.2 Successor Corporations**

In the case of the consolidation, amalgamation, merger or transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another person, trust, corporation, partnership or similar entity ("successor entity"), the successor entity resulting from such consolidation, amalgamation, merger or transfer (if not the Corporation) shall expressly assume, by supplemental indenture satisfactory in form to the Trustee and executed and delivered to the Trustee, the due and punctual performance and observance of each and every covenant and condition of this Indenture to be performed and observed by the Corporation unless all of the Warrants have terminated in accordance with Section 4.1(e).

## **ARTICLE 9 Concerning The Trustee**

### **9.1 Trust Indenture Legislation**

- (a) If and to the extent that any provision of this Indenture limits, qualifies or conflicts with a mandatory requirement of any legislation applicable to this Indenture, such mandatory requirement shall prevail.
- (b) The Corporation and the Trustee agree that each will, at all times in relation to this Indenture and any action to be taken hereunder, observe and comply with and be entitled to the benefits of all legislation applicable to this Indenture.

### **9.2 Rights and Duties of Trustee**

- (a) In the exercise of the rights and duties prescribed or conferred by the terms of this Indenture, the Trustee shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Trustee shall be liable only for its own negligent action, its own negligent failure to act, or its own willful misconduct or bad faith or the breach of its standard of care.
- (b) The obligation of the Trustee to commence or continue any act, action or proceeding for the purpose of enforcing any rights of the Trustee or the Warrantheolders hereunder shall be conditional upon the Warrantheolders furnishing, when required by notice by the Trustee, sufficient funds to commence or to continue such act, action or proceeding and an indemnity reasonably satisfactory to the Trustee to protect and to hold harmless the Trustee against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof. None of the provisions contained in this Indenture shall require the Trustee to expend or to risk its own funds or otherwise to incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless indemnified as aforesaid.
- (c) The Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding, require the Warrantheolders, at whose instance

it is acting, to deposit with the Trustee the Warrants held by them, for which Warrants the Trustee shall issue receipts.

### **9.3 Evidence, Experts and Advisers**

- (a) In addition to the reports, certificates, opinions and other evidence required by this Indenture, the Corporation shall furnish to the Trustee such additional evidence of compliance with any provision hereof, and in such form, as may be prescribed by any legislation applicable to this Indenture or as the Trustee may reasonably require by written notice to the Corporation.
- (b) In the exercise of its rights and duties hereunder, the Trustee may, if it is acting in good faith, rely as to the truth of the statements and the accuracy of the opinions expressed in statutory declarations, opinions, reports, written requests, consents, or orders of the Corporation, certificates of the Corporation or other evidence furnished to the Trustee pursuant to a request of the Trustee, provided that such evidence complies with all legislation applicable to this Indenture and that the Trustee complies with such legislation and that the Trustee examines the same and determines that such evidence complies with the applicable requirements of this Indenture.
- (c) Whenever it is provided in this Indenture or under any legislation applicable to this Indenture that the Corporation shall deposit with the Trustee resolutions, certificates, reports, opinions, requests, orders or other documents, it is intended that the trust, accuracy and good faith on the effective date thereof and the facts and opinions stated in all such documents so deposited shall, in each and every such case, be conditions precedent to the right of the Corporation to have the Trustee take the action to be based thereon.
- (d) Proof of the execution of an instrument in writing, including a Warrantholders' Request, by any Warrantholder may be made by the certificate of a notary public or other officer with similar powers, that the person signing such instrument acknowledged to it the execution thereof, or by an affidavit of a witness to such execution or in any other manner which the Trustee may consider adequate.
- (e) The Trustee may employ or retain at the Corporation's expense such Counsel, accountants, appraisers or other experts or advisers as it may reasonably require for the purpose of determining and discharging its duties hereunder and may pay reasonable remuneration for all services so performed by any of them, without taxation of costs of any Counsel, and shall not be responsible for any misconduct or negligence on the part of any such experts or advisers who have been appointed with due care by the Trustee.

### **9.4 Documents, Monies, etc. Held by Trustee**

Unless herein otherwise expressly provided, any of the funds held by the Trustee may be deposited in a trust account in the name of the Trustee (which may be held with the Trustee or an affiliate or related party of the Trustee) which account shall be non-interest bearing. Upon the

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written order of the Corporation, the Trustee shall invest in its name such funds in Authorized Investments in accordance with such direction. Any direction by the Corporation to the Trustee as to the investment of the funds shall be in writing and shall be provided to the Trustee no later than 9:00 a.m. on the day on which the investment is to be made. Any such direction received by the Trustee after 9:00 a.m. or received on a non-Business Day, shall be deemed to have been given prior to 9:00 a.m. the next Business Day. Unless the Corporation shall be in default hereunder, all interest or other income received by the Trustee in respect of such deposits and investments shall belong to the Corporation.

**9.5 Actions by Trustee to Protect Interest**

The Trustee shall have power to institute and to maintain such actions and proceedings as it may consider necessary or expedient to preserve, protect or enforce its interests and the interests of the Warrantheolders.

**9.6 Trustee Not Required to Give Security**

The Trustee shall not be required to give any bond or security in respect of the execution of the trusts and powers of this Indenture or otherwise in respect of the premises.

**9.7 Protection of Trustee**

By way of supplement to the provisions of any law for the time being relating to trustees it is expressly declared and agreed as follows:

- (a) the Trustee shall not be liable for or by reason of any statements of fact or recitals in this Indenture or in the Warrant Certificates (except the representation contained in Section 9.9 or in the certificate of the Trustee on the Warrant Certificates) or be required to verify the same, but all such statements or recitals are and shall be deemed to be made by the Corporation;
- (b) nothing herein contained shall impose any obligation on the Trustee to see to or to require evidence of the registration or filing (or renewal thereof) of this Indenture or any instrument ancillary or supplemental hereto;
- (c) the Trustee shall not be bound to give notice to any person or persons of the execution hereof; and
- (d) the Trustee shall not incur any liability or responsibility whatever or be in any way responsible for the consequence of any breach on the part of the Corporation to any of the covenants herein contained or of any acts of any directors, officers, employees, agents or servants of the Corporation.

**9.8 Replacement of Trustee; Successor by Merger**

- (a) The Trustee may resign its trust and be discharged from all further duties and liabilities hereunder, subject to this Section 9.8, by giving to the Corporation not less than 90 days' prior notice in writing or such shorter prior notice as the Corporation may accept as sufficient. The Warrantheolders by extraordinary

resolution shall have power at any time to remove the existing Trustee and to appoint a new Trustee. In the event of the Trustee resigning or being removed as aforesaid or being dissolved, becoming bankrupt, going into liquidation otherwise becoming incapable of acting hereunder, the Corporation shall forthwith appoint a new trustee unless a new trustee has already been appointed by the Warrantholders; failing such appointment by the Corporation, the retiring Trustee, at the Corporation's expense, or any Warrantholder may apply to a justice of the Court of Queen's Bench of the Province of Alberta on such notice as such justice may direct, for the appointment of a new trustee; but any new trustee so appointed by the Corporation or by the Court shall be subject to removal as aforesaid by the Warrantholders. Any new trustee appointed under any provision of this Section 9.8 shall be a corporation authorized to carry on the business of a trust company in the Province of Alberta and, if required by any legislation applicable to this Indenture for any other provinces, in such other provinces. On any such appointment the new trustee shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Trustee hereunder and there shall be immediately executed, at the expense of the Corporation, all such conveyances or other instruments as may, in the reasonable opinion of counsel, be necessary or advisable to vest the new trustee with such powers, rights, duties and responsibilities, provided that the predecessor Trustee shall have no obligation to execute any such conveyances or instruments until such time as it has received payment of all outstanding remuneration and expenses payable by the Corporation to such Trustee under this Indenture.

- (b) Upon the appointment of a successor trustee, the Corporation shall promptly notify the Warrantholders thereof in the manner provided for in Section 10.2 hereof.
- (c) Any corporation into or with which the Trustee may be merged or consolidated or amalgamated, or any corporation resulting therefrom to which the Trustee shall be a party, or any corporation succeeding to the trust business of the Trustee shall be the successor to the Trustee hereunder without any further act on its part or any of the parties hereto, provided that such corporation would be eligible for appointment as a successor trustee under subsection 9.8(a).
- (d) Any Warrant Certificates certified but not delivered by a predecessor trustee may be certified by the successor trustee in the name of the predecessor or successor trustee.

#### **9.9 Conflict of Interest**

- (a) The Trustee represents to the Corporation that at the time of execution and delivery hereof no material conflict of interest exists between its role as a trustee hereunder and its role in any other capacity and agrees that in the event of a material conflict of interest arising hereafter it will, within 90 days after ascertaining that it has such material conflict of interest, either eliminate the same or assign its trust hereunder to a successor trustee approved by the Corporation and meeting the requirements set forth in subsection 9.8(a). Notwithstanding the

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foregoing provisions of this subsection 9.9(a), if any such material conflict of interest exists or hereafter shall exist, the validity and enforceability of this Indenture and the Warrant Certificates shall not be affected in any manner whatsoever by reason thereof.

- (b) Subject to subsection 9.9(a), the Trustee, in its personal or any other capacity, may buy, lend upon and deal in securities of the Corporation and generally may contract and enter into financial transactions with the Corporation or any Subsidiary of the Corporation without being liable to account for any profit made thereby.

**9.10 Acceptance of Trust**

The Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform the same upon the terms and conditions herein set forth.

**9.11 Trustee Not to be Appointed Receiver**

The Trustee and any person related to the Trustee shall not be appointed a receiver, a receiver and manager or liquidator of all or any part of the assets or undertaking of the Corporation.

**9.12 Knowledge of Trustee**

The Trustee shall not be required to take notice or be deemed to have notice, whether constructive or actual, of any matter hereunder, unless the Trustee shall have received from the Corporation or a Warrantholder a notice stating the matter in respect of which the Trustee should have notice.

**9.13 Indemnification of Trustee**

In addition to and without limiting any other protection of the Trustee hereunder or otherwise by law, the Corporation shall be liable for and indemnify and save harmless the Trustee and its officers, directors, agents, employees and shareholders from and against any and all losses, costs, charges, expenses, damages and liabilities whatsoever arising in connection with this Indenture, including, without limitation, those arising out of or related to actions taken or omitted to be taken by the Trustee contemplated hereby, legal fees and disbursements on a solicitor and client basis, and costs and expenses incurred in connection with the enforcement of this indemnity, which the Trustee may suffer or incur, whether at law or in equity, in any way caused by or arising, directly or indirectly, in respect of any act, deed, matter or thing whatsoever made, done, acquiesced in or omitted in or about or in relation to the execution of its duties as Trustee and including and deed, matter or thing in relation to the execution of its duties as Trustee and including any deed, matter or thing in relation to the registration, perfection, release or discharge of security. The foregoing provisions of this section do not apply to the extent that in any circumstances there has been a failure by the Trustee or its employees or agents to act honestly and in good faith or where the Trustee or its employees or agents have acted with negligence, gross negligence or in willful disregard to the Trustee's obligations hereunder or breached the standard of care set out in Section 9.2(a). It is understood and agreed that this indemnification shall survive the termination of this Indenture or the resignation of the Trustee.

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**9.14 Trustee Not Required to Give Notice of Default**

The Trustee shall not be bound to give any notice or do or take any act, action or proceeding by virtue of the powers conferred on it hereby unless and until it shall have been required so to do under the terms hereof; nor shall the Trustee be required to take notice of any default hereunder, unless and until notified in writing of such default, which notice shall distinctly specify the default desired to be brought to the attention of the Trustee and in the absence of any such notice the Trustee may for all purposes of this Indenture conclusively assume that no default has been made in the observance or performance of any of the representations, warranties, covenants, agreements or conditions contained herein. Any such notice shall in no way limit any discretion herein given to the Trustee to determine whether or not the Trustee shall take action with respect to any default.

**9.15 Trustee's Right Not to Act**

The Trustee shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Trustee, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Trustee, in its sole judgment, determine at any time that its acting under this Indenture has resulted in it being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days written notice to the Corporation, provided that (i) the Trustee's written notice shall describe the circumstances of such non-compliance; and (ii) if such circumstances are rectified to the Trustee's satisfaction within such 10 day period, then such resignation shall not be effective. In the event of the Trustee resigning as aforesaid, the Corporation shall forthwith appoint a new trustee, in accordance with the provisions of Section 9.8.

**9.16 No Third Party Interests**

The Corporation hereby represents to the Trustee that any account to be opened by, or interest to be held by, the Trustee in connection with this Indenture, for or to the credit of the Corporation is not intended to be used by or on behalf of any third party.

**ARTICLE 10**  
**General**

**10.1 Notice to the Corporation and the Trustee**

- (a) Unless herein otherwise expressly provided, any notice to be given hereunder to the Corporation or the Trustee shall be deemed to be validly given if delivered or if sent by registered letter, postage prepaid or by facsimile:

If to the Corporation:

TransAtlantic Petroleum Corp.  
Suite 1840, 444 - 5<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 2T8  
Attention: Secretary  
Fax: (403) 262-1349

If to the Trustee:

Computershare Trust Company of Canada  
Suite 710, 530 - 8<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 3S8  
Attention: Manager, Corporate Trust  
Fax: (403) 267-6598

and any such notice delivered in accordance with the foregoing shall be deemed to have been received on the date of delivery or facsimile if delivered or faxed (with receipt confirmed) by 4:30 p.m. (local time) on a Business Day, or otherwise on the next Business Day or, if mailed, on the 5th Business Day following the date of the postmark on such notice.

- (b) The Corporation or the Trustee, as the case may be, may from time to time notify the other in the manner provided in subsection 10.1(a) of a change of address which, from the effective date of such notice and until changed by like notice, shall be the address of the Corporation or the Trustee, as the case may be, for all purposes of this Indenture.
- (c) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, any notice to be given to the Trustee or to the Corporation hereunder could reasonably be considered unlikely to reach its destination, such notice shall be valid and effective only if it is delivered to the named officer of the party to which it is addressed or, if it is delivered to such party at the appropriate address provided in subsection 10.1(a), by facsimile or other means of prepaid, transmitted and recorded communication.

## **10.2 Notice to Warrantholders**

- (a) Any notice to the Warrantholders under the provisions of this Indenture shall be valid and effective if delivered or if sent by ordinary post addressed to such holders at their post office addresses appearing on the register of Warrantholders maintained under this Indenture. Any such notice delivered in accordance with the foregoing is deemed to have been effectively given (and received by the Warrantholders) on the date of delivery (with receipt confirmed) if such date is a Business Day or, if mailed, five Business Days following actual posting of the notice.
- (b) If, by reason of a strike, lockout or other work stoppage, actual or threatened, involving postal employees, any notice to be given to the Warrantholders hereunder could reasonably be considered unlikely to reach its destination, such notice shall be valid and effective only if it is delivered personally to such Warrantholders or if delivered to the address for such Warrantholders contained in the register of Warrants maintained by the Trustee, by other means of prepaid transmitted and recorded communication. Accidental error or omission in giving notice or accidental failure to mail notice to any holder will not invalidate any action or proceeding founded thereon.
- (c) In addition to the other requirements for notice under this Section, where a Warrantholder meeting is being convened, the Trustee or Corporation may require publication of such notice in such municipalities and filing with securities regulatory authorities, as necessary to comply with applicable legal, regulatory or stock exchange requirements.

## **10.3 Evidence of Ownership**

- (a) Upon receipt of a certificate of any bank, trust company or other depositary satisfactory to the Trustee stating that the Warrants specified therein have been deposited by a named person with such bank, trust company or other depositary and will remain so deposited until the expiry of the period specified therein and the acknowledgement by the named person of such certificate, the Corporation and the Trustee may treat the person so named as the owner, and such certificate as sufficient evidence of the ownership by such person of such Warrant during such period, for the purpose of any requisition, direction, consent, instrument or other document to be made, signed or given by the holder of the Warrant so deposited.
- (b) The Corporation and the Trustee may accept as sufficient evidence of the fact and date of the signing of any requisition, direction, consent, instrument or other document by any person (i) the signature of any officer of any bank, trust company, or other depositary satisfactory to the Trustee as witness of such execution, (ii) the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded at the place where such certificate is made that the person signing acknowledged to him the execution thereof, or (iii) a satisfactory declaration of a witness of such execution.

#### **10.4 Counterparts**

This Indenture may be executed in several counterparts, each of which when so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument and notwithstanding their date of execution they shall be deemed to be dated as of the date hereof.

#### **10.5 Satisfaction and Discharge of Indenture**

Upon the earlier of:

- (a) the date by which there shall have been delivered to the Trustee for exercise or destruction all Warrant Certificates theretofore certified hereunder; or
- (b) 30 days after the Time of Expiry or the Accelerated Time of Expiry, as applicable.

this Indenture shall cease to be of further effect and the Trustee, on demand of and at the cost and expense of the Corporation and upon delivery to the Trustee of a certificate of the Corporation stating that all conditions precedent to the satisfaction and discharge of this Indenture have been complied with, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture. Notwithstanding the foregoing, the indemnities provided to the Trustee by the Corporation hereunder shall remain in full force and effect and survive the termination of this Indenture.

#### **10.6 Provisions of Indenture and Warrants for the Sole Benefit of Parties and Warrantholders**

Nothing in this Indenture or in the Warrant Certificates, expressed or implied, shall give or be construed to give to any person other than the parties hereto and the Warrantholders, as the case may be, any legal or equitable right, remedy or claim under this Indenture, or under any covenant or provision herein or therein contained, all such covenants and provisions being for the sole benefit of the parties hereto and the Warrantholders.

#### **10.7 Warrants Owned by the Corporation or its Subsidiaries—Certificate to be Provided**

For the purpose of disregarding any Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation in Section 7.16, the Corporation shall provide to the Trustee from time to time and immediately upon request, a certificate of the Corporation setting forth as at the date of such certificate:

- (a) the names (other than the name of the Corporation) of the registered holders of Warrants which, to the knowledge of the Corporation, are owned by or held for the account of the Corporation or any Subsidiary of the Corporation; and
- (b) the number of Warrants owned legally or beneficially by the Corporation or any Subsidiary of the Corporation,

and the Trustee, in making the computations in Section 7.16, shall be entitled to rely on such certificate without any additional evidence.

**10.8 Successors**

All provisions of this Indenture for the benefit of the Corporation and the Trustee bind and enure to the benefit of their respective successors and assigns.

**Executed and delivered as of the 1st day of December, 2006.**

**TRANSATLANTIC PETROLEUM CORP.**

Per: "Scott Larsen" \_\_\_\_\_

Per: "Chris Lloyd" \_\_\_\_\_

**COMPUTERSHARE TRUST COMPANY OF CANADA**

Per: "Laura Leong" \_\_\_\_\_

Per: "Dan Sander" \_\_\_\_\_

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SCHEDULE A to the Warrant Indenture made as of December 1, 2006 between  
TRANSATLANTIC PETROLEUM CORP. and COMPUTERSHARE TRUST  
COMPANY OF CANADA as Trustee

[see attached]

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SCHEDULE B to the Warrant Indenture made as of December 1, 2006 between  
TRANSATLANTIC PETROLEUM CORP. and COMPUTERSHARE TRUST  
COMPANY OF CANADA as Trustee

**FORM OF DECLARATION FOR REMOVAL OF LEGEND**

TO: Computershare Trust Company of Canada  
as registrar and transfer agent for the common shares of  
TransAtlantic Petroleum Corp. (the “**Corporation**”) and warrant trustee for the warrants of the Corporation

RE: Sale of \_\_\_\_\_  
(describe securities)

The undersigned (A) acknowledges that the sale of the securities of TransAtlantic Petroleum Corp. (the “Corporation”) to which this declaration relates is being made in reliance on Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the “**1933 Act**”) and (B) certifies that (1) the undersigned is not an affiliate of the Corporation (as defined in Rule 405 under the 1933 Act) or if the undersigned is an affiliate of the Corporation, no selling concession, fee or other remuneration is paid in connection with such offer or sale other than the usual and customary broker’s commission that would be received by a person executing such transaction as agent, (2) the offer of such securities was not made to a person in the United States and either (a) at the time the buy order was originated, the buyer was outside the United States, or the seller and any person acting on its behalf reasonably believed that the buyer was outside the United States, or (b) the transaction was executed on or through the facilities of the Toronto Stock Exchange and neither the seller nor any person acting on its behalf knows that the transaction has been prearranged with a buyer in the United States, (3) neither the seller, nor any affiliate of the seller, nor any person acting on any of their behalf has engaged or will engage in any directed selling efforts in connection with the offer and sale of such securities, (4) the sale is bona fide and not for the purpose of “**washing off**” the resale restrictions imposed because the securities are “**restricted securities**” (as such term is defined in Rule 144(a)(3) under the 1933 Act), (5) the seller does not intend to replace such securities with fungible unrestricted securities; and (6) the contemplated sale is not a transaction, or part of a series of transactions which, although in technical compliance with Regulation S, is part of a plan or scheme to evade the registration provisions of the 1933 Act. Terms used herein have the meanings given to them by Regulation S under the 1933 Act.

By \_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_  
\_\_\_\_\_

Name: \_\_\_\_\_  
\_\_\_\_\_  
(please print)

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**Affirmation by Seller's Broker-Dealer**

We have read the foregoing representations of our customer, \_\_\_\_\_ (the "**Seller**") dated \_\_\_\_\_, with regard to the sale, for such Seller's account, of the common shares/warrants (circle one) represented by certificate number \_\_\_\_\_ of the Corporation described therein, and we hereby affirm that, to the best of our knowledge and belief, the facts set forth therein are full, true and correct.

\_\_\_\_\_  
Name of Firm

By: \_\_\_\_\_  
Authorized Officer

Date: \_\_\_\_\_

**CREDIT AGREEMENT**

THIS AGREEMENT dated for reference April 16, 2007 is between:

**QUEST CAPITAL CORP.**, a British Columbia company, having  
an office at Suite 300, 570 Granville Street, Vancouver, British  
Columbia V6C 3P1

(the “**Lender**”)

AND:

**TRANSATLANTIC PETROLEUM CORP.**, an Alberta  
corporation having an office at Suite 1840, 444 – 5<sup>th</sup> Ave. S.W.,  
Calgary, Alberta T2P 2T8

(the “**Borrower**”)

**BACKGROUND**

- A. The Lender has agreed to lend to the Borrower and the Borrower has agreed to borrow from the Lender the aggregate principal amount of U.S.\$3,000,000 (or the Canadian equivalent thereof), on the terms and subject to the conditions of this Agreement.

**AGREEMENTS**

For good and valuable consideration, the receipt and sufficiency of which each party acknowledges, the parties agree as follows:

1. **Definitions.** In this Agreement:

- (a) “**Advance**” means the advance of the Facility hereunder;
- (b) “**Bonus Shares**” has the meaning set forth in paragraph 7 below;
- (c) “**Business Day**” means a day which is not a Saturday, Sunday or a statutory holiday in Alberta;
- (d) “**Event of Default**” has the meaning set forth in paragraph 14 below;
- (e) “**Exchange**” means the TSX Venture Exchange;
- (f) “**Facility**” means the credit facility granted by the Lender to the Borrower pursuant to this Agreement in the maximum aggregate amount of U.S.\$3,000,000 (or the Canadian equivalent thereof);
- (g) “**Guarantor**” means TransAtlantic Petroleum (USA) Corp., a Colorado corporation;

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- (h) “**Initial Advance**” has the meaning set forth in paragraph 2 below;
  - (i) “**Outstanding Balance**” has the meaning set forth in paragraph 4(a) below;
  - (j) “**Standby Fee Shares**” has the meaning set forth in paragraph 6 below;
  - (k) “**Subsequent Advance**” has the meaning set forth in paragraph 2 below;
  - (l) “**Subsidiaries**” means, with respect to the Borrower, any corporation of which at least a majority of the outstanding shares to which there is attached voting power under ordinary circumstances to elect a majority of the board of directors of such corporation, shall at the relevant time be owned directly or indirectly by the Borrower, one or more Subsidiaries of the Borrower, or any combination thereof, and “**Subsidiary**” shall mean any one of them; and
  - (m) “**Term Sheet**” means the Term Sheet for Credit Facility dated March 19, 2007 between the Borrower and the Lender.
2. **Facility Advance.** Subject to and upon the fulfilment of the conditions precedent contained in paragraphs 9 and 10, as applicable, of this Agreement, the Lender will advance the principal amount of the Facility to the Borrower or as the Borrower may otherwise direct. The initial advance (the “**Initial Advance**”) shall be no less than U.S.\$1,000,000 (or the Canadian equivalent thereof). Further advances (each, a “**Subsequent Advance**”) shall be in multiples of U.S.\$250,000 (or the Canadian equivalent thereof) up to an aggregate maximum principal amount of U.S.\$3,000,000 (or the Canadian equivalent thereof). For any such advance, the Borrower shall provide written notice to the Lender and the Lender shall, if satisfied that all conditions hereunder have been met, provide the Borrower with such advance within three (3) business days.
3. **Use of Proceeds.** The Borrower covenants and agrees with the Lender that the Facility proceeds will be used by the Borrower for development of prospects in its portfolio and for general working capital purposes, and for no other purpose whatsoever without the express written consent of the Lender.
4. **Term and Prepayment.**
- (a) The aggregate principal amount of the Advance, together with all accrued but unpaid interest, bonus and other costs or charges payable hereunder from time to time (collectively the “**Outstanding Balance**”), will be immediately due and payable by the Borrower to the Lender on the earlier of:
    - (i) November 30, 2007;
    - (ii) the date of any change of control of the Borrower (“control” being defined as ownership of or control or direction over, directly or indirectly, 20% or more of the outstanding voting securities of the Borrower); and

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- (iii) the occurrence of an Event of Default (as defined in paragraph 14 hereof) and a demand for payment by the Lender pursuant to paragraph 15 below;
  - (b) If after the Advance of the Facility, or any portion thereof, the Borrower or any of its Subsidiaries sell or otherwise dispose of any assets outside of the ordinary course of business, or close one or more equity or debt financings, the Borrower will pay or cause to be paid to the Lender all proceeds from such sale, disposition or financing, net of reasonable selling or financing costs, up to the full amount of the Outstanding Balance, to be applied on account of the Facility;
  - (c) The Borrower may prepay the Facility in whole at any time before maturity, without penalty, provided that such prepayment is made on the last business day of a calendar month and the Borrower has provided not less than ten (10) business days' prior notice of its intention to prepay the Facility.
5. **Interest.** Interest will accrue on the Outstanding Balance from the date of the Initial Advance at the rate of twelve per cent (12%) per annum, calculated daily and compounded monthly (effective annual rate of 12.68%), and be payable by the Borrower to the Lender monthly on the last Business Day of every month, as well as after maturity, default and judgment.
6. **Standby Fee.** As consideration for the provision by the Lender of the Facility, concurrently with the Initial Advance, the Borrower shall make a non-refundable payment to the Lender of U.S.\$90,000, payable in the form of 132,353 common shares in the capital of the Borrower, for and at a deemed price of \$0.68 per share, as such shares are presently constituted (the "**Standby Fee Shares**"), subject to a maximum hold period of four (4) months from the date of issuance under applicable securities laws and the rules and policies of the Exchange, registered in the name of the Lender, or as the Lender may otherwise direct.
7. **Bonus.** As additional consideration for the Advance, at the time of the Initial Advance and each time a Subsequent Advance is made to the Borrower, the Borrower shall make a non-refundable payment to the Lender, payable in the form of common shares, of that number of common shares of the Borrower equal to five per cent (5%) of the amount of such advance divided by ninety per cent (90%) of the volume weighted average price for the five (5) trading days immediately preceding the date of the Borrower's written request for such advance, and such shares (the "**Bonus Shares**"), shall be subject to a maximum hold period of four (4) months from the date of issuance under applicable securities laws and the rules and policies of the Exchange, registered in the name of the Lender, or as the Lender may otherwise direct.
8. **Security.** As security for the Facility, the Borrower will:
- (a) execute and deliver to the Lender a promissory note, in the form attached hereto as Schedule "A" (the "**Note**") for the Initial Advance and for each Subsequent Advance, respectively;

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- (b) execute and deliver to the Lender, a fixed and floating charge debenture under which the Borrower will grant to the Lender, *inter alia*, a first priority security interest in all of its present and after-acquired real property;
  - (c) execute and deliver to the Lender, a general security agreement under which the Borrower will grant to the Lender, *inter alia*, a first priority security interest in all of its present and after-acquired personal property;
  - (d) cause to be executed and delivered to the Lender a guarantee of the Guarantor, pursuant to which the Guarantor will guarantee the payment and performance of each and every obligation of the Borrower to the Lender hereunder;
  - (e) cause to be executed and delivered to the Lender, a deed of trust, mortgage, assignment, security agreement, fixture filing and financing statement and a security agreement under which the Guarantor will grant to the Lender a first priority security interest in all of its present and after-acquired personal property and in its present and after acquired real property located in its South Gillock field and in its State Kohfeldt Unit field both located in Galveston County, Texas;
  - (f) execute and deliver to the Lender a share pledge agreement, together with undated share transfer forms for each share certificate and certified directors' resolutions, under which the Borrower will pledge and grant to the Lender a first priority security interest in 12,391,496 common shares in the capital of the Guarantor, representing all of the issued and outstanding share capital of the Guarantor;
  - (g) execute and deliver to the Lender an environmental indemnity agreement in respect of its properties;
  - (h) cause to be executed and delivered to the Lender an environmental indemnity agreement in respect of the properties of the Guarantor; and
  - (i) execute and deliver or cause to be executed and delivered, any other ancillary documentation that the Lender or its counsel may reasonably require.

all in form and terms satisfactory to the Lender and its counsel (collectively, the "Security").

9. **Conditions Precedent to Initial Advance.** As conditions precedent to the Initial Advance of the applicable portion of the Facility by the Lender:

- (a) the Borrower will have:
  - (i) executed and delivered or caused to be executed and delivered all of the Security documents referred to in paragraph 8 above and the documents, securities and instruments referred therein and the Lender will have completed all registrations and other filings that may be prudent or necessary to perfect the Lender's security therein;

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- (ii) received and provided the Lender with written evidence of the approval of the Exchange to the issuance of the Standby Fee Shares and the Bonus Shares;
  - (iii) delivered a certified copy of its directors' resolutions authorizing the borrowing of the Facility, the grant of the Security, as applicable, and the execution and delivery of this Agreement and all agreements, documents and instruments referred to herein, together with an officer's certificate, certifying certain factual matters, in form and terms satisfactory to the Lender;
  - (iv) delivered a certified copy of a resolution of the directors of the Guarantor authorizing the guarantee of the Facility, the grant of the Security, as applicable, and the execution and deliver of all agreements, documents and instruments applicable thereto, together with an officer's certificate, certifying certain factual matters, in form and terms satisfactory to the Lender;
  - (v) caused to be executed and delivered a legal opinion of counsel to the Borrower and the Guarantor, in form and terms satisfactory to the Lender and its counsel;
- (b) the representations and warranties of the Borrower contained in paragraph 11 will be true and correct in all material respects and the Borrower will have complied with all covenants required to be complied with by it under this Agreement and all other documents delivered hereunder, prior to the Initial Advance of the Facility by the Lender;
  - (c) there shall have been no adverse material change in the business, operations, assets or ownership of the Borrower since the date of the Term Sheet;
  - (d) the Lender will have completed and, in its sole and absolute discretion, be satisfied with its due diligence review of the Borrower and the Guarantor and their respective properties and assets and will have received the approval of the Lender's board of directors; and
  - (e) the Lender will, in its sole and absolute discretion, be satisfied as to the creditworthiness of the Borrower and its Subsidiaries and the adequacy of the collateral security contemplated herein.

If any of the foregoing conditions precedent are not satisfied or waived by the Lender in writing on or before April 16, 2007, this Agreement will terminate, and the Lender will be under no further obligation to the Borrower in connection with the transaction contemplated herein.

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10. **Conditions Precedent to Subsequent Advances.** As conditions precedent to each Subsequent Advance by the Lender:

- (a) the Borrower will have provided written notice to the Lender in accordance with paragraph 2 above;
- (b) the Borrower will have executed and delivered a promissory note in the amount of such Subsequent Advance to the Lender;
- (c) the representations and warranties of the Borrower contained in paragraph 11 will be true and correct in all material respects and the Borrower will have complied with all covenants required to be complied with by it under this Agreement and all other documents delivered hereunder; and
- (d) the Lender will, in its sole discretion, be satisfied that there shall have been no adverse material change in the business, operations, assets or ownership of the Borrower or the Guarantor since the date of the last advance made in connection with this Agreement.

11. **Representations and Warranties of the Borrower.** The Borrower represents and warrants to the Lender as follows:

- (a) the Borrower exists as a corporation under the laws of the Province of Alberta, and has not discontinued or been dissolved under any applicable laws and is in good standing with respect to the filing of annual reports and all other such requirements pursuant to the laws thereof;
- (b) the Guarantor exists as a corporation under the laws of the State of Colorado, and has not discontinued or been dissolved under any applicable laws and is in good standing with respect to the filing of annual reports and all other such requirements pursuant to the laws thereof;
- (c) the Borrower and each Subsidiary has the power and authority to (i) carry on its businesses as now being conducted and is licensed or registered or otherwise qualified in all jurisdictions where in the nature of its assets or the business transacted makes such licensing, registration or qualification necessary, (ii) acquire, own, hold, lease and mortgage or grant security in its assets including real property and personal property and (iii) enter into and perform its obligations under this Agreement and all other documents or instruments delivered hereunder;
- (d) this Agreement and all ancillary instruments or documents issued, executed and delivered hereunder by the Borrower or the Guarantor, as applicable, have been duly authorized by all necessary action of the Borrower and the Guarantor, as applicable, and each constitutes or will constitute a legal, valid and binding obligation of the Borrower or the Guarantor, as applicable, enforceable against the Borrower or the Guarantor, as applicable, in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights and remedies of creditors and to the general principles of equity;

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- (e) neither the Borrower nor any Subsidiary is in breach of or in default under any obligation in respect of borrowed money, and the execution and delivery of this Agreement and all ancillary instruments or documents issued and delivered hereunder or thereunder, and the performance of the terms hereof and thereof will not be, or result in, a violation or breach of, or default under, the Borrower's or any Subsidiary's constating documents, any law, judgment, agreement or instrument to which they are a party or may be bound;
  - (f) neither the entering into of this Agreement nor any of the Security by the parties thereto will constitute a breach or default under or in respect of any agreement to which either the Borrower or the Guarantor is bound, and no consent, filing, authorization or approval is prudent or necessary under the terms of any such agreement to proceed with the transactions contemplated herein, including but not limited to the granting of the Security by the parties thereto;
  - (g) the Security creates a valid first registered charge, lien and security interest on the property and assets of the Borrower and the Guarantor, as applicable, which has been granted over the applicable properties and assets in accordance with the terms hereof;
  - (h) no litigation or administrative proceedings before any court or governmental authority are presently ongoing, or have been threatened in writing, or to the best of the Borrower's knowledge are pending, against the Borrower, any Subsidiary or any of their respective properties or assets or affecting any of their respective properties or assets which could have a material adverse effect on their respective business, properties or assets;
  - (i) the Borrower and each Subsidiary, as the case may be, is the legal and beneficial owner of or has the right to acquire the interests in the properties, business and assets referred to in the information circulars, prospectuses, annual information forms, offering memoranda, financial statements, material change reports and news releases filed with the Exchange and the securities regulatory authority or commission in each of the jurisdictions in which the Borrower is a reporting issuer on or during the twelve (12) months preceding the date hereof, and any other disclosure materials provided to the Lender and its advisers in conjunction with this transaction (collectively, the "**Disclosure Record**"), and any and all agreements pursuant to which the Borrower and each Subsidiary, as the case may be, holds or will hold any such interest in property, business or assets are in good standing in all material respects under the applicable statutes and regulations of the jurisdictions in which they are situated;
  - (j) there has been no adverse material change (actual, contemplated or threatened) in the property, assets, business or operations of the Borrower or any Subsidiary within the past twelve (12) months, except as disclosed in the Disclosure Record;

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- (k) the Disclosure Record is complete and accurate in all material respects and omits no facts, the omission of which makes the Disclosure Record, or any particulars therein, misleading, misrepresentative or incorrect in any material respect;
  - (l) the Borrower and to the best of the Borrower's knowledge each Subsidiary, has conducted and is conducting its businesses in material compliance with all applicable laws, bylaws, rules and regulations of each jurisdiction in which its businesses are now carried on and hold all licenses, registrations, permits, consents or qualifications (whether governmental, regulatory or otherwise) required in order to enable its businesses to be carried on as now conducted or as proposed to be conducted, and all such licenses, registrations, permits, consents and qualifications are valid and subsisting and in good standing and neither the Borrower nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such licenses, registrations, permits, consents or qualifications which, if the subject of an unfavourable decision, ruling or finding, would materially adversely affect the condition of such businesses, operations, condition (financial or otherwise) or income of the Borrower or any such Subsidiary, as the case may be;
  - (m) no order ceasing or suspending trading in securities of the Borrower or prohibiting the sale or trading of securities by the Borrower has been issued and no proceedings for this purpose have been instituted, are pending, contemplated or threatened;
  - (n) neither Canada Revenue Agency nor any other taxation authority has asserted or, to the best of the Borrower's knowledge, has threatened to assert any assessment, claim or liability for taxes due or to become due in connection with any review or examination of the tax returns of the Borrower or any Subsidiary filed for any year which would have material adverse effect on the assets, properties, business, results of operations, prospects or condition (financial or otherwise) of the Borrower or any Subsidiary;
  - (o) neither the Borrower nor any Subsidiary is a party to any material contract other than as disclosed in the Disclosure Record;
  - (p) as at the date of this Agreement, except as disclosed in the Disclosure Record, no holder of outstanding shares in the capital of the Borrower will be entitled to any pre-emptive or any similar rights to subscribe for any of the shares in the capital of the Borrower or other securities of the Borrower or any Subsidiary, and no rights, warrants or options to acquire, or instruments convertible into or exchangeable for any shares in the capital of the Borrower or any Subsidiary are outstanding;
  - (q) except for the Guarantor, Big Gas Sand Corporation, TransAtlantic Worldwide, Ltd., Transatlantic Worldwide Romania SRL, TransAtlantic Maroc, Ltd.,

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TransAtlantic North Sea, Ltd. and TransAtlantic Turkey, Ltd., the Borrower has no direct or indirect subsidiary corporations;

- (r) except as disclosed to the Lender in writing prior to the date of this Agreement, the Borrower and each Subsidiary owns its business, operations and assets, as more particularly described in the Disclosure Record, and holds good title thereto, free and clear of all liens, claims or encumbrances whatsoever;
- (s) all factual information previously or contemporaneously furnished to the Lender by or on behalf of the Borrower for purposes of or in connection with this Agreement or any transaction contemplated hereby, is true and accurate in every material respect and such information is not incomplete by the omission of any material fact necessary to make such information not misleading;
- (t) after giving effect to the transactions contemplated in this Agreement, the Borrower and each Subsidiary are generally able to pay their debts as they come due;
- (u) the registered office of the Borrower is located at Suite 3700, 400 – 3<sup>rd</sup> Ave. S.W., Calgary, Alberta, T2P 4H2 and the chief executive office, principal place of business and place where the Borrower keeps its books and records is located at Suite 1840, 444 – 5<sup>th</sup> Ave. S.W., Calgary, Alberta T2P 2T8;
- (v) the chief executive office, principal place of business and place where the Guarantor keeps its books and records is located at Suite 1755, 5910 N. Central Expressway, Dallas, Texas 75206.

**11.1 Representations and Warranties of the Lender.** The Lender represents and warrants to the Borrower as follows:

- (a) the Lender is acquiring (i) the debt obligations of the Borrower created under this Agreement and any Security documents and (ii) the Bonus Shares and the Standby Fee Shares, as principal for its own account;
- (b) the Lender is resident in the Province of British Columbia and is not a U.S. Person (as defined in Regulation S under the *United States Securities Act of 1933*, as amended);
- (c) the Lender is an “accredited investor”, as such term is defined in National Instrument 45-106 entitled “Prospectus and Registration Exemptions” (NI 45-106”) promulgated under the securities legislation of the provinces of British Columbia and Alberta by virtue of the fact that the Lender is not an investment fund and has net assets of at least \$5,000,000 as shown on its most recently prepared financial statements; and

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- (d) the Lender was not created and is not being used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of “accredited investor” in NI 45-106.

12. **Positive Covenants of the Borrower.** The Borrower covenants and agrees that so long as any monies will be outstanding under this Agreement, it shall, and shall cause the Guarantor to:

- (a) at all times maintain its corporate existence and the corporate existence of all of its Subsidiaries;
- (b) duly perform its obligations under this Agreement, all other agreements and instruments executed and delivered hereunder or thereunder;
- (c) promptly pay when due all agency or finders’ fees payable in connection with the Facility or this Agreement and indemnify and save harmless the Lender from all claims in respect of any such fees;
- (d) carry on and conduct its business in a proper business-like manner in accordance with good business practice and will keep or cause to be kept proper books of account in accordance with generally accepted accounting principles;
- (e) at all times comply with all applicable laws, except such voluntary non-compliance as shall, in its good faith business judgment, not have a material adverse effect on the business of the Borrower or any Subsidiary, taken as a whole;
- (f) at all times maintain any material contracts in good standing and fulfill all obligations thereunder, and immediately notify the Lender of any facts or circumstances which may arise which could constitute a default thereunder and give rise to a right of termination under either such agreement, and take all steps as may be prudent or necessary to rectify or cure any such default;
- (g) provide the Lender with not less than thirty (30) days notice of the expiry or termination of any material options, rights or other benefits held by or available to the Borrower or any of its Subsidiaries;
- (h) pay and discharge promptly when due, all taxes, assessments and other governmental charges or levies imposed upon it or upon its properties or assets or upon any part thereof, as well as all claims of any kind (including claims for labour, materials and supplies) which, if unpaid, would by law become a lien, charge, trust or other claims upon any such properties or assets, provided however that the Borrower and the Guarantor shall not be required to pay any such tax, assessment, charge or levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or the Guarantor, as applicable, shall have set aside on its books the

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reserve the extent required by generally accepted accounting principles in an amount which is reasonably adequate with respect thereto;

- (i) promptly furnish and give to the Lender such reports, certificates, financial statements, and such other information with respect to the Borrower or any Subsidiary as the Lender may reasonably request from time to time during the term of this Agreement;
- (j) provide the Lender with written notice of any proposed financing made by or to the Borrower or the Guarantor concurrently with, but not prior to, public disclosure of such financing;
- (k) furnish and give to the Lender (if such is the case) notice that an Event of Default has occurred and, if applicable, is continuing or notice in respect of any event which would constitute an Event of Default hereunder and specifying the nature of same; and
- (l) perform and do all such acts and things as are necessary to perfect and maintain the security provided to the Lender pursuant to this Agreement.

13. **Negative Covenants of the Borrower.** The Borrower covenants and agrees with the Lender that the Borrower will not without first obtaining the written consent of the Lender:

- (a) make, give, create or permit or attempt to make, give or create any mortgage, charge, lien or encumbrance over any assets of the Borrower or any Subsidiary, other than any such as are contemplated hereunder;
- (b) change the name of the Borrower or any Subsidiary;
- (c) allot and issue any new shares of any Subsidiary;
- (d) in respect of itself or any Subsidiary, declare or provide for any dividends or other payments based on share capital;
- (e) redeem or purchase any of its shares or the shares of any Subsidiary;
- (f) make or permit any sale of or disposition of any substantial or material part of its business, assets or undertaking, or that of any Subsidiary, including its interest in the shares or assets of any Subsidiary outside of the ordinary course of business;
- (g) save and except for purchase money security interests and equipment leases entered into in the ordinary course of business, borrow or cause or permit any Subsidiary to borrow money from any person other than the Lender without first obtaining and delivering to the Lender a duly signed assignment and postponement of claim by such person in favour of the Lender, in form and terms satisfactory to the Lender;

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- (h) in respect of itself or any Subsidiary, pay out or permit the payment out of any shareholders loans or other indebtedness to non-arm's length parties; or
  - (i) in respect of itself or any Subsidiary, guarantee or permit the guarantee of the obligations of any other person, directly or indirectly.

14. **Events of Default.** Each and every of the events set forth in this paragraph will be an event of default ("**Event of Default**"):

- (a) if the Borrower fails to make any payment of principal or interest when due hereunder, and such failure continues for two (2) Business Days;
- (b) if the Borrower or any Subsidiary defaults in observing or performing any material term, covenant or condition of this Agreement, the Security documents or any other collateral document delivered hereunder or in connection with the Facility, other than the payment of monies as provided for in subparagraph (a) hereof, on its part to be observed or performed and such failure continues for five (5) Business Days;
- (c) if any of the Borrower's or any Subsidiary's representations, warranties or other statements in this Agreement or any other collateral document delivered hereunder or in connection with the Facility were at the time given false or misleading in any material respect;
- (d) if the Borrower or any Subsidiary defaults, in any material respect, in observing or performing any term, covenant or condition of any material debt instrument or material debt obligation by which it is bound;
- (e) if the Borrower or any Subsidiary permits any sum which has been admitted as due by it, or is not disputed to be due by it, and which forms or is capable of being made a charge upon any of its assets or undertaking to remain unpaid or not challenged for thirty (30) days after proceedings have been taken to enforce the same;
- (f) if the Borrower or any Subsidiary, either directly or indirectly through any Subsidiary, ceases or threatens to cease to carry on business;
- (g) if any order is made or issued by a competent regulatory authority prohibiting the trading in shares of the Borrower or any successor thereof, or if the Borrower's common shares are suspended or de-listed from trading on any stock exchange;
- (h) if, in the reasonable opinion of the Lender, an adverse material change occurs in the financial condition of the Borrower, or any Subsidiary;
- (i) if the Lender in good faith and on commercially reasonable grounds believes that the ability of the Borrower to pay any of the Outstanding Balance to the Lender or to perform any of the covenants contained in this Agreement or any other

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collateral agreement or other document is impaired or any security granted by the Borrower to the Lender is or is about to be impaired or in jeopardy;

- (j) if the Borrower or any Subsidiary petitions or applies to any tribunal for the appointment of a trustee, receiver or liquidator or commences any proceedings under any bankruptcy, insolvency, readjustment of debt or liquidation law of any jurisdiction, whether now or hereafter in effect; or
  - (k) if any petition or application for appointment of a trustee, receiver or liquidator is filed, or any proceedings under any bankruptcy, insolvency, readjustment of debt or liquidation law are commenced, against the Borrower or any Subsidiary which is not opposed by the Borrower or any such Subsidiary in good faith, or an order, judgment or decree is entered appointing any such trustee, receiver, or liquidator, or approving the petition in any such proceeding.
15. **Effect of Event of Default.** If any one or more of the Events of Default occur or occurs and is or are continuing, the Lender may without limitation in respect of any other rights it may have in law or pursuant to this Agreement or any other document or instrument delivered hereunder, demand immediate payment of all monies owing hereunder.
16. **Production Proceeds.** By the terms of the deed of trust, mortgage, assignment, security agreement, fixture filing and financing statement by the Guarantor in favor of the trustee defined therein and the Lender (the "Deed of Trust"), the Guarantor is and will be assigning to the Lender all of the "Production Proceeds" (as defined in the Deed of Trust) accruing to the property covered thereby, so long as no Event of Default has occurred, the Guarantor may continue to receive from the purchasers of production all such Production Proceeds, subject, however, to the liens created under the Deed of Trust, which liens are hereby affirmed and ratified. Upon the occurrence of an Event of Default, the Lender may exercise all rights and remedies granted under the Deed of Trust, including the right to obtain possession of all Production Proceeds then held by the Guarantor or to receive directly from the purchasers of production all other Production Proceeds. In no case shall any failure, whether purposed or inadvertent, by the Lender to collect directly any such Production Proceeds constitute in any way a waiver, remission or release of any of their rights under the Deed of Trust, nor shall any release of any Production Proceeds by the Lender to the Guarantor constitute a waiver, remission, or release of any other Production Proceeds or of any rights of the Lender to collect other Production Proceeds thereafter.
17. **Lender's Legal Fees.** The Borrower will pay for the Lender's reasonable legal fees and other costs, charges and expenses (including due diligence expenses) of and incidental to the preparation, execution and completion of this Agreement and the security hereunder, as may be required by the Lender to complete this transaction. Any amounts will be payable upon presentment of an invoice. If not paid within thirty (30) days of presentment of an invoice, such amount will be added to and form part of the principal amount of the Facility and shall accrue interest from such date as if it had been advanced by the Lender to the Borrower hereunder.

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18. **Indemnity.** The Borrower agrees to indemnify and save harmless the Lender and each of its directors, officers, employees and agents from and against all liabilities, claims, losses, damages and reasonable costs and expenses in any way caused by or arising directly or indirectly from or in consequence of the occurrence of any Event of Default under this Agreement.
19. **Further Assurances.** The Borrower will from time to time, whether before or after the occurrence of an Event of Default, do all such acts and things and execute and deliver all such documents, deeds, transfers, assignments and instruments as the Lender may require for perfecting the Security granted or to be granted pursuant to this Agreement. The Borrower covenants and agrees with the Lender to discharge or cause to be discharged forthwith any encumbrances which may rank equal or in priority to the Lender's Security referred to herein. The Borrower covenants and agrees to take all steps and proceedings as may be necessary to give effect to this Agreement.
20. **Notices.** In this Agreement:
- (a) any notice or communication required or permitted to be given under this Agreement will be in writing and will be considered to have been given if delivered by hand, transmitted by facsimile transmission or mailed by prepaid registered post to the address or facsimile transmission number of each party set out below:
- (i) if to the Lender:
- Quest Capital Corp.  
Suite 300, 570 Granville Street  
Vancouver, BC V6C 3P1
- Attention: Michael Atkinson  
Fax No: (604) 681-4692
- (ii) if to the Borrower or the Guarantor:
- c/o TransAtlantic Petroleum Corp.  
Suite 1840, 444 – 5<sup>th</sup> Ave. S.W.  
Calgary, Alberta T2P 2T8
- Attention: Scott Larsen, President  
Fax No: (403) 262-1349
- With a copy to:  
c/o TransAtlantic Petroleum (USA) Corp.  
5910 N. Central Expressway, Suite 1755  
Dallas, Texas 75206

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Attention: Scott Larsen, President  
Fax No: (214) 220-4327

or to such other address or facsimile transmission number as any party may designate in the manner set out above; and

(b) notice or communication will be considered to have been received:

- (i) if delivered by hand during business hours on a Business Day, upon receipt by a responsible representative of the receiver, and if not delivered during business hours, upon the commencement of business on the next Business Day;
- (ii) if sent by facsimile transmission during business hours on a Business Day, upon the sender receiving confirmation of the transmission, and if not transmitted during business hours, upon the commencement of business on the next Business Day; and
- (iii) if mailed by prepaid registered post upon the fifth Business Day following posting; except that, in the case of a disruption or an impending or threatened disruption in postal services every notice or communication will be delivered by hand or sent by facsimile transmission.

- 21. **Assignment.** The Borrower acknowledges and agrees that the Lender may assign all or part of the Facility, this Agreement and all collateral agreements, documents or instruments delivered hereunder to one or more assignees, free from any right of set-off or counterclaim or equity, subject only to the Lender's notification of such assignment or assignments being given in writing to the Borrower.
- 22. **Agreement to Pay.** Upon receipt of written notice and direction from the Lender, the Borrower covenants and agrees to make all payments of interest, principal and structuring fees due under this Agreement to the Lender and any assignee, pro rata in accordance with their respective proportionate interests in the Facility as set out in such written notice and direction, absent which all such payments may be made to the Lender.
- 23. **Enurement.** This Agreement will enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.
- 24. **Waivers.** No failure or delay on the Lender's part in exercising any power or right hereunder will operate as a waiver thereof.
- 25. **Remedies are Cumulative.** The Lender's rights and remedies hereunder are cumulative and not exclusive of any rights or remedies at law or in equity.
- 26. **Time.** Time is of the essence of this Agreement and all documents or instruments delivered hereunder.

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27. **Criminal Code Compliance.** In this paragraph the terms “interest”, “criminal rate” and “credit advanced” have the meanings ascribed to them in Section 347 of the Criminal Code (Canada) as amended from time to time. The Borrower and the Lender agree that, notwithstanding any agreement to the contrary, no interest on the Facility or the credit advanced by the Lender under this Agreement will be payable in excess of that permitted under the laws of Canada. If the effective rate of interest, calculated in accordance with generally accepted actuarial practices and principles, would exceed the criminal rate on the credit advanced, then:
- (a) the elements of return which fall within the term “interest” will be reduced to the extent necessary to eliminate such excess;
  - (b) any remaining excess that has been paid will be credited towards prepayment of the Facility; and
  - (c) any overpayment that may remain after such crediting will be returned forthwith to the Borrower upon demand, and, in the event of dispute, a Fellow of the Canadian Institute of Actuaries appointed by the Lender will perform the relevant calculations and determine the reductions, modifications and credits necessary to effect the foregoing and the same will be conclusive and binding on the parties. This Agreement, the Note and all related agreements and documents will automatically be modified to reflect such modifications without the necessity of any further act or deed of the Borrower and the Lender to give effect to them.
28. **Invalidity.** If at any time any one or more of the provisions hereof is or becomes invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions hereof will not in any way be affected or impaired thereby to the fullest extent possible by law.
29. **Governing Laws.** This Agreement will be governed by and interpreted in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein. The Borrower submits to the non-exclusive jurisdiction of the Courts of the Province of Alberta and agrees to be bound by any suit, action or proceeding commenced in such Courts and by any order or judgment resulting from such suit, action or proceeding, but the foregoing will in no way limit the right of the Lender to commence suits, actions or proceedings based on this Agreement in any jurisdiction it may deem appropriate.
30. **Amendment.** This Agreement supersedes the Term Sheet and all prior agreements and discussions between the parties with respect to the subject matter set forth herein. This Agreement may be varied or amended only by or pursuant to an agreement in writing signed by the parties hereto.
31. **Schedules.** All Schedules attached hereto will be deemed fully a part of this Agreement.
32. **Counterparts.** This Agreement may be signed in one or more counterparts, originally or by facsimile, each such counterpart taken together will form one and the same agreement.

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TO EVIDENCE THEIR AGREEMENT each of the parties has executed this Agreement on the date first above written.

**QUEST CAPITAL CORP.**

Per:

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Authorized Signatory

Per:

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Authorized Signatory

**TRANSATLANTIC PETROLEUM CORP.**

Per:

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Authorized Signatory

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**PROMISSORY NOTE**

Principal Amount: U.S. \$•

For value received, TRANSATLANTIC PETROLEUM CORP. (the “**Borrower**”) hereby promises to pay to QUEST CAPITAL CORP. (the “**Lender**”) the principal sum of • UNITED STATES DOLLARS (U.S.\$•) on the earlier of:

- (a) November 30, 2007;
- (b) any change of control of the Borrower (“control” being defined as ownership of or control of direction over, directly or indirectly, 20% or more of the outstanding voting securities of the Borrower); and
- (c) the occurrence of an Event of Default (as defined in the Credit Agreement between the Borrower and the Lender dated for reference April •, 2007, as may be amended from time to time),

together with interest accruing on the outstanding principal amount from the date hereof at a rate of TWELVE PERCENT (12%) per annum, compounded monthly (effective rate of 12.68% per annum), before and after each of maturity, default and judgment, payable monthly on the last Business Day of every month. All payments under this promissory note will be made by certified cheque, bank draft or wire transfer (pursuant to wire transfer instructions provided by the Lender from time to time) and delivered to the Lender at Suite 300, 570 Granville Street, Vancouver, British Columbia V6C 3P1.

The undersigned is entitled to prepay this promissory note, in whole or in part, without notice or penalty, provided that such prepayment is made on the last business day of a calendar month and the Borrower has provided not less than ten (10) business days’ prior notice of its intention to prepay the Facility. The undersigned waives demand and presentment for payment, notice of non-payment, protest, notice of protest and notice of dishonour. This promissory note will be governed by and construed in accordance with the laws of Alberta and the federal laws of Canada applicable therein. In this promissory note, “Business Day” means a day which is not a Saturday, Sunday or a statutory holiday in Alberta.

Dated: April •, 2007.

**TRANSATLANTIC PETROLEUM CORP.**

Per:

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Authorized Signatory

**FIRST AMENDING AGREEMENT**

THIS AGREEMENT is made and dated for reference August 10, 2007

BETWEEN:

**TRANSATLANTIC PETROLEUM CORP.**, as Borrower

AND:

**QUEST CAPITAL CORP.**, as Lender

WHEREAS:

- A. The parties hereto entered into a credit agreement made as of April 16, 2007 (the “**Credit Agreement**”) wherein the Lender agreed to establish the Facility in favour of the Borrower;
- B. The parties hereto have agreed to amend the Credit Agreement, as herein set out.

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the premises and of other good and valuable consideration (the receipt whereof is hereby acknowledged), the parties hereto agree as follows:

- 1. Unless otherwise defined herein or unless the context otherwise requires, defined words and terms used in the Credit Agreement shall have the same meanings when used herein.
- 2. The Credit Agreement shall be and is hereby modified as follows:
  - (a) Recital A. shall be amended by replacing “U.S.\$3,000,000” with “U.S.\$4,000,000”;
  - (b) Paragraph 1 (Definitions) (f) (“Facility”) shall be amended by replacing “U.S.\$3,000,000” with “U.S.\$4,000,000”;
  - (c) Paragraph 2 (Facility Advance) shall be amended by replacing “U.S.\$3,000,000” with “U.S.\$4,000,000”;
  - (d) Paragraph 7 (Bonus) shall be deleted in its entirety and the following substituted therefore:
    - “7. As additional consideration for the Advance, at the time of the Initial Advance and each time a Subsequent Advance is made to the Borrower, the Borrower shall make a non-refundable payment to the Lender, payable in the form of common shares, of that number of common shares of the Borrower equal to: (i) five per cent (5%) of the amount of such advance divided by ninety per cent (90%) of the volume weighted average price for

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the five (5) trading days immediately preceding the date of the Borrower's written request for such advance in respect of all such advances up to and including the amount of U.S.\$3,000,000 (or the Canadian equivalent thereof), or (ii) eight per cent (8%) of the amount of such advance divided by ninety per cent (90%) of the volume weighted average price for the five (5) trading days immediately preceding the date of the Borrower's written request for such advance in respect of all advances in excess of U.S.\$3,000,000 (or the Canadian equivalent thereof), and such shares (the "**Bonus Shares**"), shall be subject to a maximum hold period of four (4) months from the date of issuance under applicable securities laws and the rules and policies of the Exchange, registered in the name of the Lender, or as the Lender may otherwise direct."

3. Notwithstanding the date of execution hereof, this agreement shall not become effective, and the Credit Agreement shall govern the relationship between the parties in respect of the Facility until such time as the Lender is satisfied that, *inter alia*, all conditions precedent listed in paragraph 10 of the Credit Agreement in respect of a Subsequent Advance have been met and the Lender is in receipt of such other documentation, certificates, Bonus Shares (including favourable opinion letters of legal counsel to the Borrower) as are required and by the Lender in connection with this agreement.  
The terms and conditions stated in this paragraph 3 are inserted for the sole benefit of the Lender and may be waived by the Lender in whole or in part and with or without terms or conditions.
4. The Credit Agreement, will henceforth be read and construed in conjunction with this agreement and will be deemed to be supplemented and amended to such extent only as is necessary to give full force and effect to the provisions hereof.
5. The Credit Agreement, together with all terms, covenants and conditions thereof as hereby supplemented and amended, will be and continue to be in full force and effect but these presents are executed under the express reserve of the liens and encumbrances created by, and of all other rights subsisting in favour of the Lender under or by virtue of, the Security and without novation of any kind or derogation from the rank and priority thereof.
6. This agreement will not create any merger or novation or alter or prejudice any rights which the Lender may have under the Credit Agreement or any of the Security, and will not create any merger or novation or alter or prejudice the rights of the Lender as regards any surety or subsequent encumbrancer or any person not a party hereto liable to pay any amount of indebtedness or liability of the Borrower to the Lender or having an interest in the property, assets or undertaking of the Borrower or of any other person that is subject to the Security, all of which rights are hereby expressly reserved.
7. This agreement and everything herein contained will enure to the benefit of and be binding on the Borrower and the Lender and their respective successors and assigns.

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8. This agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument, and it shall not be necessary in making proof of this agreement to produce or account for more than one such counterpart. Delivery of an executed signature page of this agreement by facsimile transmission or by e-mail in pdf format shall be effective as delivery of a manually executed counterpart hereof.
9. Subject to satisfaction or waiver of the conditions precedent set forth in paragraph 3 hereof, the amendments to the Credit Agreement set forth herein shall be and be deemed to be effective as of and from August 10, 2007.

IN WITNESS WHEREOF the parties hereto have executed this agreement as of the date first above written.

**The Borrower:**

**TRANSATLANTIC PETROLEUM CORP.**

Per: \_\_\_\_\_  
Authorized Signatory

**The Lender:**

**QUEST CAPITAL CORP.**

Per: \_\_\_\_\_  
Authorized Signatory

Per: \_\_\_\_\_  
Authorized Signatory

TransAtlantic Petroleum (USA) Corp. hereby consents and agrees to the terms of this first amending agreement, acknowledges and confirms each representative and warranty applicable to it, acknowledges that its guarantee and all other Security granted by it to the Lender in support of its obligations thereunder and hereunder remain in full force and effect and undertakes and agrees to take all such actions as may be required of it to give effect to and cause the performance of the terms and conditions of this first amending agreement and the Security.

**TRANSATLANTIC PETROLEUM (USA) CORP.**

Per: \_\_\_\_\_  
Authorized Signatory

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of TransAtlantic Petroleum Corp.

We consent to the inclusion in this Form 20-F of:

- our auditors' report dated April 2, 2007, except for note 13 which is as of July 20, 2007, and note 1, which is as of October 5, 2007, on the consolidated balance sheets of TransAtlantic Petroleum Corp. ("the Company") as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for each of the years in the three-year period ended December 31, 2006;
- our Comments by Auditors for US Readers on Canada-US Reporting Differences, dated April 2, 2007, except for note 13 which is as of July 20, 2007, and note 1, which is as of October 5, 2007;
- and reference to our firm under the heading "Statement of Experts" in the Form 20-F;

each of which is contained in this Form 20-F of the Company for the fiscal year ended December 31, 2006.

*"KPMG LLP"*

Calgary, Canada

October 5, 2007

**NSAI** **NETHERLAND, SEWELL  
& ASSOCIATES, INC.**  
**WORLDWIDE PETROLEUM CONSULTANTS**  
 ENGINEERING ☒ GEOLOGY ☒ GEOPHYSICS ☒ PETROPHYSICS

CHAIRMAN EMERITUS  
CLARENCE M. NETHERLAND

CHAIRMAN & CEO  
FREDERIC D. SEWAL

PRESIDENT & COO  
C.H. (SCOTT) REES III

EXECUTIVE COMMITTEE  
G LANCE BINDER ☒ DALLAS  
DANNY D. SIMMONS ☒ HOUSTON

P. SCOTT FROST ☒ DALLAS  
DAN PAUL SMITH ☒ DALLAS  
JOSEPH J. SPELLMAN ☒ DALLAS  
THOMAS J. TELLA II ☒ DALLAS

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the reference to our firm on this Form 20-F Registration Statement of TransAtlantic Petroleum (USA) Corp., and to the incorporation by reference of information relating to our proved reserves as of December 31, 2004, December 31, 2005, and December 31, 2006, in certain oil and gas properties located in Bayou Couba Field, St. Charles Parish, Louisiana, and East and South Gillock Fields, Galveston County, Texas.

**NETHERLAND, SEWELL & ASSOCIATES, INC.**

By: /s/ J. Carter Henson, Jr.  
 J. Carter Henson, Jr., P.E.  
 Senior Vice President

Houston, Texas  
October 5, 2007

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 1221 LAMAR STREET, SUITE 1200 ☒ HOUSTON, TEXAS 77010-3072 ☒ PH: 713-654-4950 ☒ FAX: 713-654-4951

nsai@nsai-petro.com  
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